Making Suffolk a safer place to live, work, travel and invest

ORIGINATOR: **ERNST & YOUNG LLP (EXTERNAL AUDITORS)**	**PAPER NO: AC24/14**

SUBMITTED TO: **AUDIT COMMITTEE – 5 JULY 2024**

SUBJECT: **EXTERNAL AUDITOR PROVISIONAL AUDIT PLAN REPORT FOR 2023/24**

SUMMARY:

1. The report attached is the External Auditors Provisional Audit Plan Report for 2023/24.

RECOMMENDATION:

1. The Audit Committee is requested to consider the attached report.

Police and Crime Commissioner for Suffolk
Chief Constable for Suffolk Constabulary

Provisional Audit Planning Report
Year ended 31 March 2024

25 June 2024

Building a better working world

Police and Crime Commissioner and Chief Constable for Suffolk Police

25 June 2024

Suffolk Police HQ
Martlesham Heath
Ipswich
Suffolk
IP5 3QA

Dear Tim and Rachel,

Provisional Audit planning report Year ended 31 March 2024

Attached is our Provisional Audit Planning Report for the forthcoming meeting of the Joint Independent Audit Committee. The purpose of this report is provide the Joint Independent Audit Committee with a basis to review our proposed audit approach and scope for the 2023/24 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, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC). We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play to addressing the audit backlog.

The PCC/CC, as the Suffolk Police's those charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the PCC and CC's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the PCC and CC's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

(continued)

We draw Joint Independent Audit Committee members and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the PCC, CC, Joint Independent Audit Committee, 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 5 July 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson
Partner
For and on behalf of Ernst & Young LLP
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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/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). 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 Joint Independent Audit Committee and management of Suffolk Police. Our work has been undertaken so that we might state to the Joint Independent Audit Committee and management of Suffolk Police 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 Joint Independent Audit Committee and management of Suffolk Police 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 2023/24 audit strategy

Overview of our 2023/24 audit strategy

Context for the 2023/24 audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited accounts by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched consultation on amending the Code of Audit Practice to :
    - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
    - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of local authorities and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a consultation on temporary changes to the accounting code for preparation of the accounts. The proposed temporary changes to the financial reporting framework have an impact on both how the accounts are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates it is likely that we will disclaim the PCC/CC 2022/23 accounts. The proposed disclaimer of the PCC/CC 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Joint Independent Audit Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Provisional Audit Planning Report.

Overview of our 2023/24 audit strategy

Responsibilities of Authority management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The PCC/CC Chief Finance Officers are responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that the PCC/CC resources are readily available to support the audit process, within agreed deadlines. The PCC/CC as those charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the PCC/CC's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- Consider and report on the adequacy of the PCC/CC's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in PCC/CC's financial reporting arrangements where we consider it necessary to do so.
- Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix B of this report together with paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.
- Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.

We are aware that the calling of a General Election brings some uncertainty for the Parliamentary process of resetting and recovering the Local Audit market that has been subject to recent consultations and discussions in many forums. At this point, we do not have any clearer information on what that uncertainty means for that Parliamentary process. We will continue with business as normal until ministerial / departmental or regulatory guidance dictates something else. Business as usual for you means performing the audit of your 2023/24 financial statements.

Overview of our 2023/24 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) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. Until our planning is complete further risks may be identified.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from 2021/22	Details
Misstatement due to fraud or error (Group / PCC / CC)	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure (Group / PCC)	Fraud 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. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of property, plant and equipment (Group / PCC)	Inherent risk	No change in risk or focus	The valuation of property, plant and equipment represents significant balances in the Group and PCC's accounts at £65.252 million for year ended 31 March 2024. The land and building assets which form the main part of this balance are subject to valuation changes, impairment reviews and depreciated charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end land and building balances recorded in the balance sheet. 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 pension liability (LGPS and Police Pension Scheme) (Group / CC / PCC)	Inherent risk	No change in risk or focus	The estimation of the defined benefit obligation is sensitive to a range of assumptions including rates of pay and pension inflation, mortality and discount rates. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2023/24 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) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from 2021/22	Details
Accounting for Private Finance Initiative (PFI) schemes (Group / PCC)	Inherent risk	No change in risk or focus	The PCC and CC disclose one PFI contract within their financial statements for the use of six Police Investigation Centres shared with the Police and Crime Commissioner of Norfolk. The liability and payments for services are dependent upon assumptions within the accounting models underpinning the PIF scheme. As such, management is required to apply estimation techniques to support the disclosures within the financial statements.
Accounting for data breach issue (Group / PCC / CC)	Inherent risk	New inherent risk	During the 2021/22 audit, management reported two incidents of data breaches that were discovered within the financial year 2022/23. These breaches were related to the handling of personal data in response to Freedom of Information (FOI) requests that were provided in 2018 and during the period 2021 and 2022. We assessed the financial impact of the data breach issues on the 2021/22 financial statements, against IAS37, *Provisions , Contingent Liabilities and Contingent Assets*, to assess the completeness and accuracy of the financial liability. We identified a judgemental uncorrected audit difference of £0.311 million related to the short-tern provisions for compensations claims resulting from the data breach. In addition, we identified an uncorrected disclosure difference relating to contingent liabilities, due to a potential fine imposed by Information Commissioner's Office (ICO) as a result of the data breach. The ICO's work is still on-going and therefore we don't currently know whether the Authority will be subject to any financial penalty which needs to be reflected in the accounts. Considering the nature and extent of the error found, we have identified a higher inherent risk that the PCC/CC's accounting for the data breach issue may not align with the accounting standards and the CIPFA Code requirements.
Leases (Group / PCC)	Inherent risk	New inherent risk	The Group and the PCC have a number of leasing arrangements, including offices, fire stations and Safer Neighbourhood Team stations. During our 2021/22 audit, we identified that there was a lack of finance lease disclosure for a newly operational asset, Mildenhall Hub, valued at £0.626 million, and an absence of disclosure regarding a matter of judgement in relation to operating leases. The judgement pertains to the PCC's capital contributions toward the constructions of these assets, which were then capitalised as property, plant and equipment and depreciated over time. Our audit also identified that there were no formal signed lease agreements in place for most of the leases held by the PCC as lessee. Given the nature and extent of the error found, we have identified this as a higher inherent risk as the lease accounting may not be fully compliant with the accounting standards and the CIPFA Code requirements.

Overview of our 2023/24 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) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from 2021/22	Details
Implementation of IFRS 16 Leases (Group / PCC)	Area of focus	New area of focus	IFRS 16 Leases introduces a number of significant changes to lease accounting which have the potential to impact on the real cost of leases disclosed in the accounts. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. IFRS 16 does not come into effect for local authorities until 1 April 2024. However, officers should be acting now to assess the Group and the PCC's leasing positions and secure the required information to ensure the Group and the PCC will be fully compliant with the 2024/25 Code. In addition, disclosures will need to be included in the 2023/24 accounts regarding the potential impact of this new accounting standard.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the PCC/CC's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the PCC/CC updated on any changes to materiality levels as the audit progresses.

Overview of our 2023/24 audit strategy

Group – Materiality

Planning materiality

£4.570m

Materiality has been set at £4.570 million, which represents 2.0% of group gross expenditure on provision of services as disclosed in the 2023/24 draft accounts.

Performance materiality

£3.427m

Performance materiality has been set at £3.427 million, which represents 75% of materiality.

Audit differences

£0.228m

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) greater than £0.228 million. Other misstatements identified will be communicated to the extent that they merit the attention of the PCC and CC.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the PCC/CC's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the PCC/CC updated on any changes to materiality levels as the audit progresses.

Overview of our 2023/24 audit strategy

Chief Constable – Materiality

Planning materiality

£4.267m

Materiality has been set at £4.267 million, which represents 2.0% of group gross expenditure on provision of services as disclosed in the 2023/24 draft accounts.

Performance materiality

£3.200m

Performance materiality has been set at £3.200 million, which represents 75% of materiality.

Audit differences

£0.213m

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, housing revenue account, collection fund) greater than £0.213 million. Other misstatements identified will be communicated to the extent that they merit the attention of the PCC and CC.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the PCC/CC's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the PCC/CC updated on any changes to materiality levels as the audit progresses.

Overview of our 2023/24 audit strategy

Police and Crime Commissioner – Materiality

Planning materiality

£2.239m Materiality has been set at £2.239 million, which represents 2.0% of the assets as disclosed in the 2023/24 draft accounts.

Performance materiality

£1.679m Performance materiality has been set at £1.679 million, which represents 75% of materiality.

Audit differences

£0.112m 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, housing revenue account, collection fund) greater than £0.112 million. Other misstatements identified will be communicated to the extent that they merit the attention of the PCC and CC.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the PCC/CC's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the PCC/CC updated on any changes to materiality levels as the audit progresses.

Overview of our 2023/24 audit strategy

Audit scope

This Provisional Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the PCC/CC give a true and fair view of the financial position as at 31 March 2024 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/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/CC.

Taking the above into account, and as articulated in this Provisional Audit Planning Report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. 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". Therefore, to the extent any of these or any other risks are relevant in the context of the PCC/CC's audit, we set those within this Provisional Audit Planning Report and we will continue to discuss these with management as to the impact on the scale fee.

Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effects of climate-related matters on financial statements

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 the PCC/CC. 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.

Audit scope and approach

We intend to take a substantive audit approach.

The Government proposals to re-establish the local authority framework on a more sustainable basis and the outcome of the related consultations are likely to have an impact on the scope of the audit. In particular, where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase. We draw your attention to the audit scope Section 05 of this audit plan where we set out our current understanding of some of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates on the impact of these changes to the PCC/CC where necessary to do so.

Overview of our 2024 audit strategy

Value for Money

We are required to consider whether the PCC/CC have 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’s and CC’s arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the PCC/CC’s arrangements against three reporting criteria:

- 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; and
- 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.

The commentary on the PCC/CC’s value for money arrangements will be included in the Auditor’s Annual Report.

Timeline

A timetable will be agreed with management to complete the audit work by 30 November 2024. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

Key Audit Partner and senior audit team

Debbie Hanson has taken over from Mark Hodgson as the Key Audit Partner for the engagement. Debbie has over 20 years' experience in public sector audits, including local governments. Vicky Chong remains as the Engagement Manager for 2023/24 audit, while Nichola Vella is taking on the role of Lead Senior on the audit.

Engagement Partner (Debbie Hanson)

The Engagement Partner has overall responsibility for:

- The audit and its performance
- The auditor’s report that is issued on behalf of EY
- The overall quality of the audit

Manager (Vicky Chong)

The Manager has responsibility for management of the audit and ensuring that it is adequately resourced to meet both its time and budget constraints. They will also support the individual engagement team members to complete timely high quality audit fieldwork.

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*

What is the risk?

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

As identified in ISA (UK) 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?

We will:

- Identify fraud risks during the planning stages.
- Inquire 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.
- Discuss with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- 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.

Perform mandatory procedures regardless of specifically identified fraud risks, including:

- testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertaking procedures to identify any significant unusual transactions.
- Considering whether management bias was present in the key accounting estimates and judgments in the financial statements.

Having evaluated how this risk may be manifested and whether we need to perform other audit procedures not referred to above, we concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

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.

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

► Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.

► Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.

► Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment (PPE) additions and/or REFCUS in the financial statements.

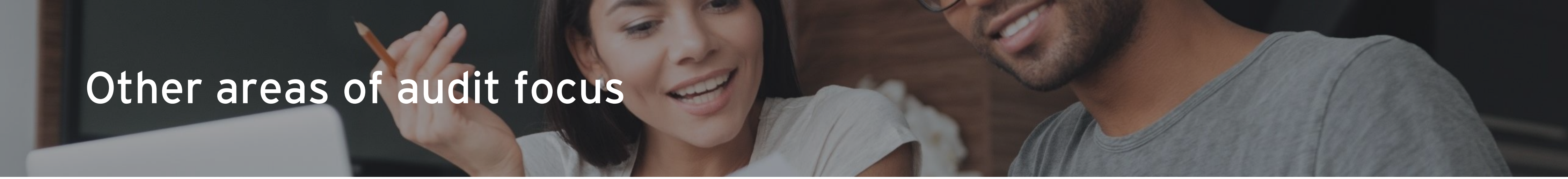
What is the risk?

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 have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What will we do?

- Test PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Assess whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do expect there to be material REFCUS in the year.
- Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.



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, and the key judgements and estimates?

Valuation of property, plant and equipment

(inherent risk – Group / PCC)

The fair value of property, plant and equipment (PPE) represent significant balances in the Group and the PCC's accounts at £65.252 million for year ended 31 March 2024 (prior year was £66.055 million). The land and building assets which form the main part of this balance 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 valuation basis varies depending on the type of assets, and therefore subject to different input, estimation process and assumptions used.

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.

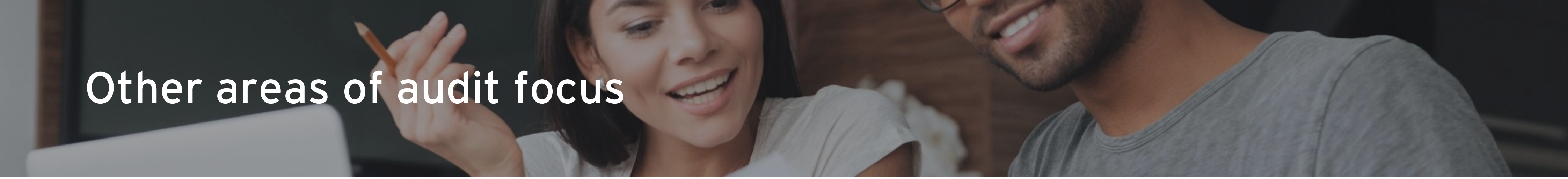
Our response: Key areas of challenge and professional judgement

We will:

- Consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Perform testing of key assumptions and methodologies on a sample of assets and consider the reasonableness of the estimation techniques employed;
- Sample testing key asset information used by the valuer in performing their valuation, and agreeing this to what has been recorded in the fixed asset register and general ledger;
- Consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code;
- Reviewing assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- Testing accounting entries have been correctly processed in the financial statements; and
- Reviewing the disclosures to ensure this is adequate in relation to estimation uncertainty.

What else will we do?

We will continue to consider the need to use EY Real Estates, our internal specialists on asset valuations, to support our work in this area. Based on procedures performed at the planning stage we do not expect to commission EY Real Estates.



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, and the key judgements and estimates?

Valuation of Pension Liability (LGPS and Police Pension Scheme)

(inherent risk – Group / CC / PCC)

The Local Authority Accounting Code of Practice and IAS19 require the PCC and CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Suffolk County Council and the Police Pension Scheme.

The respective PCC and CC pension valuation is a material estimated balance and the Code requires that this is disclosed on the Balance Sheet of the PCC and CC. At 31 March 2024 these totalled:

- PCC - £1.500 million pension asset (PY was £0.883 million pension asset); and
- CC - £1,117.697 million pension liability (PY was £1,072.467 million pension liability).

The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the Suffolk Pension Fund and the Police Pension Scheme.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

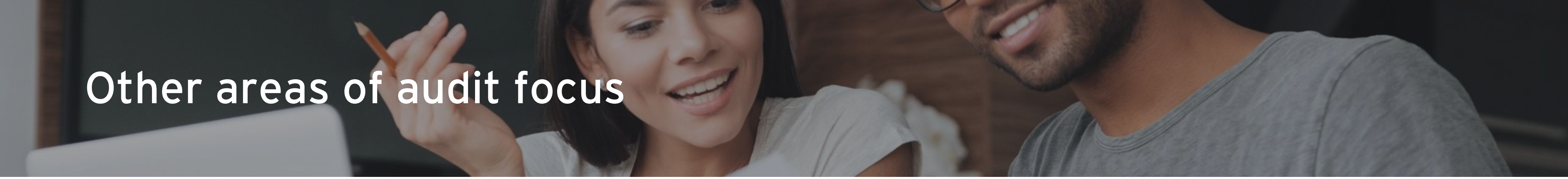
Our response: Key areas of challenge and professional judgement

We will:

- Liaise with the auditors of Suffolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Suffolk Police;
- Assess the work of the LGPS pension fund actuary (Hymans Robertson) and the Police Pension actuary (GAD), including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- Review and test the accounting entries and disclosures made within the Group, PCC and CC financial statements in relation to IAS19.

What else will we do?

We will consider outturn information available at the time we undertake our work after production of the PCC's and CC's draft financial statements, for example the year-end actual valuation of pension fund asset/liability. 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.



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, and the key judgements and estimates?

Accounting for Private Finance Initiative (PFI)

(inherent risk – Group / PCC)

The PCC and CC disclose one PFI contract within their financial statements for the use of six Police Investigation Centres shared with the Police and Crime Commissioner for Norfolk from 2011 until 2041. At 31 March 2024, the PCC's share of the PFI liability was £19.632 million (PY was £20.340 million).

The liability and payments for services are dependent upon assumptions within the accounting models underpinning the PFI scheme. As such Management is required to apply estimation techniques to support the disclosures within the financial statements.

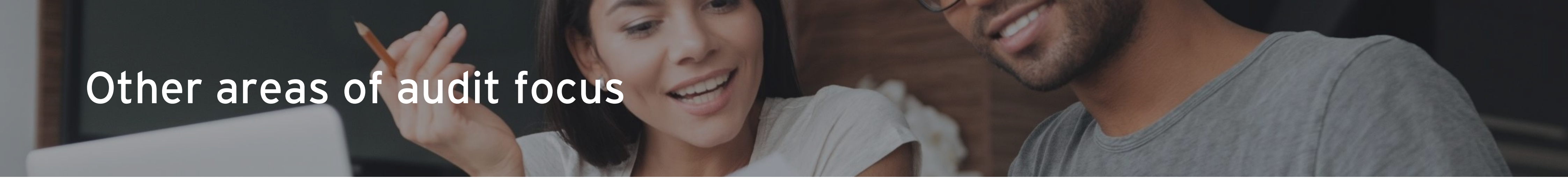
Our response: Key areas of challenge and professional judgement

We will:

- Enquire whether there have been any significant changes within the model since our review;
- Undertake a review and assessing the impact of any changes in assumptions upon the model; and
- Agree the models to the disclosures within the financial statements.

What else will we do?

We will consider the need to use EY FAAS, our internal specialists on PFI valuations, to support our work in this area. Based on procedures performed at the planning stage we do not expect to commission EY FAAS.



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, and the key judgements and estimates?

Accounting for data breach issue

(inherent risk – Group / CC / PCC)

While the 2021/22 audit was in progress, Management reported two incidents of breaches in data breach that were discovered within the financial year 2022/23.

We assessed the financial impact of the data breach issues on the 2021/22 financial statements, against IAS37, Provisions , Contingent Liabilities and Contingent Assets, for the completeness and accuracy of the financial liability. We identified a judgemental uncorrected audit difference of £0.311 million related to the short-tern provisions for compensations claims resulting from the data breach. In addition, we also identified an uncorrected disclosure difference relating to contingent liabilities, due to a potential fine imposed by Information Commissioner's Office (ICO) as a result of the data breach. The ICO's work is still on-going and therefore we don't currently know whether the Authority will be subject to any financial penalty which needs to be reflected in the accounts.

Considering the nature and extent of the error found, we have identified a higher inherent risk that the PCC/CC's accounting for the data breach issue may not align with the accounting standards and the CIPFA Code requirements.

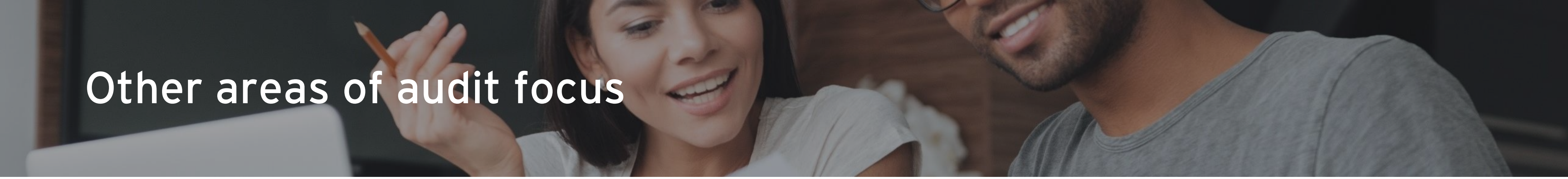
Our response: Key areas of challenge and professional judgement

We will:

- Review the Management's assessment on the provisions and contingent liability in relation to the data breach issue;
- Challenge and evaluate the Management's judgements and assumptions where provisions and contingent liabilities involve subjective estimates; and
- Review the disclosures in the financial statements for completeness and compliance with the relevant accounting standards, ensuring that all required information is disclosed.

What else will we do?

We will review the arrangements in place to address the weaknesses in internal controls and inadequacies in the data protection procedures.



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, and the key judgements and estimates?

Leases

(inherent risk – Group / PCC)

The Group and the PCC maintain a number of leasing arrangements, including office, fire stations and Safer Neighbourhood Team stations.

During our 2021/22 audit, we identified that there was a lack of finance lease disclosure for a newly operational asset, Mildenhall Hub, valued at £0.626 million, and an absence of disclosure regarding a matter of judgement in relation to operating leases. The judgement pertains to the PCC's capital contributions toward the constructions of these assets, which were then capitalised as property, plant and equipment and depreciated over time. Our audit also identified that there were no formal signed lease agreements in place for most of the leases held by the PCC as lessee.

Given the nature and extent of the error found, we have identified a higher inherent risk that lease accounting may not be fully compliant with the accounting standards and the CIPFA Code requirements.

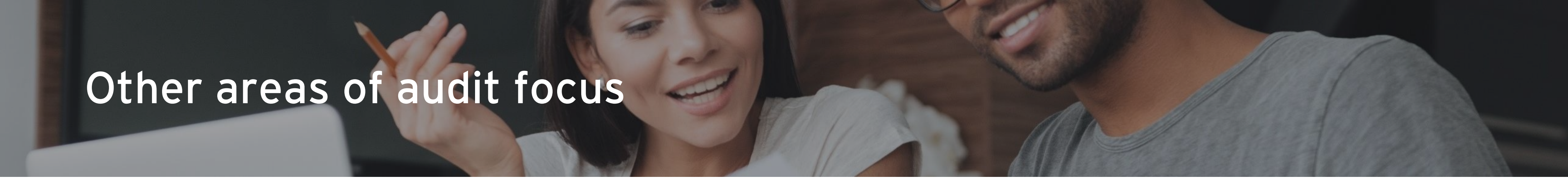
Our response: Key areas of challenge and professional judgement

We will:

- Sample test lease transactions to verify the accuracy, completeness and proper recording of leases.
- Evaluate whether the leases has been correctly classified as finance or operating leases in accordance with the relevant financial reporting framework;
- Inspect the original lease agreements for terms and conditions, lease durations, payment clauses, renewal options, and clauses related to termination, sublease or transfer;
- Test accounting entries have been correctly processed in the financial statements; and
- Review the disclosure made in the accounts in respect of leases to ensure adequacy.

What else will we do?

We will obtain and inspect the lease agreements to verify their existence and ensure they are fully signed with authorised signatures.



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, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement	What else will we do?
Implementation of IFRS 16 Leases *(New area of focus – Group / PCC)* IFRS 16 Leases introduces a number of significant changes to lease accounting which have the potential to impact on the real cost of leases disclosed in the accounts. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. IFRS 16 does not come into effect for local authority until 1 April 2024. However, officers should be acting now to assess the Group and the PCC's leasing positions and secure the required information to ensure the Group and the PCC will be fully compliant with the 2024/25 Code. Further details can be found in Appendix C – Accounting and Regulatory Update in this report.	We will: ► Review the Group and the PCC's data collection process that identifies all arrangements which convey the right to control the use of specified assets for a set period of time; ► Review the Group and the PCC's policy choices, including an adoption of a portfolio approach, the low value threshold set, the asset classes and the management policy in relation to discount rates to be used; ► Seek to understand the Group and the PCC's preparedness to implement the changes. This includes assessing the finance team's familiarity and understanding on the Code adaptations for the public sector, the transitional accounting arrangements, the ongoing accounting arrangements and determining when a lease requires remeasurement and modifications.	We will review the disclosure in the 2023/24 Statement of Accounts on the impact the initial application of IFRS 16 is expected to have on the authority's financial statements.

03 Value for Money risks

Value for Money

PCC/CC 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.

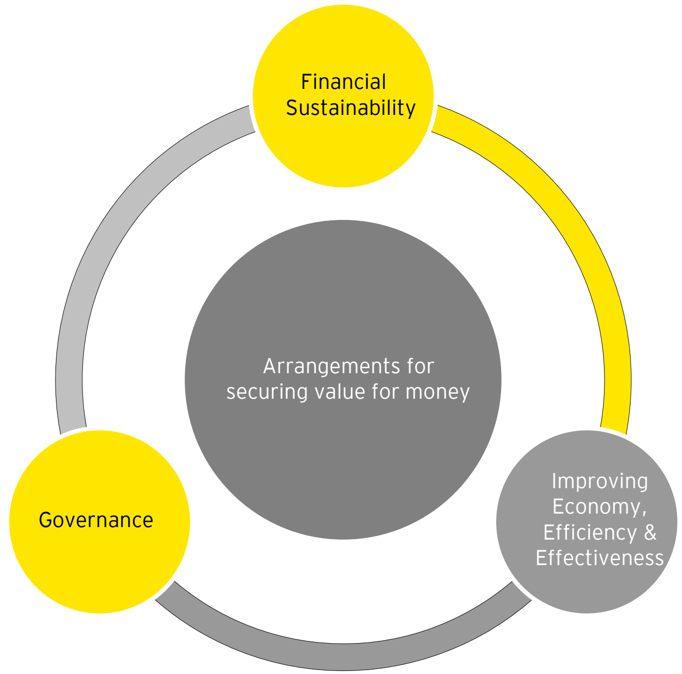
As part of the material published with the financial statements, the PCC/CC is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the PCC/CC tailors the content to reflect its 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 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 Independent Audit Committee.

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.

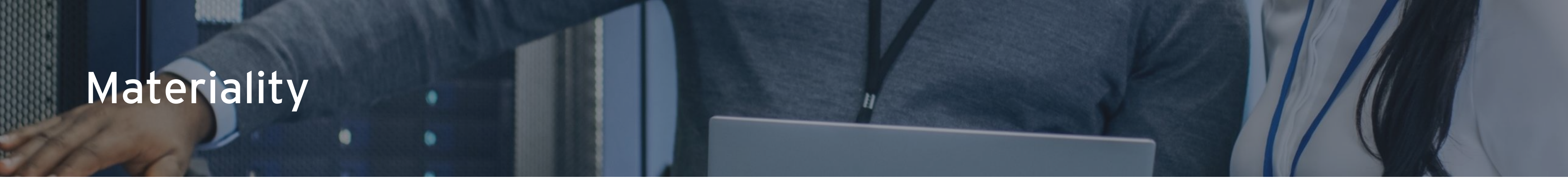
In addition, the Code requires us to include the commentary on your value for money arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the PCC/CC's attention or the wider public. This may include matters that we do not consider to be significant weaknesses in your arrangements but should be brought to your attention. This will 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 2023/24 VFM planning

We have yet to complete our detailed VFM risk planning. However, one area of focus will be on the arrangements that the PCC/CC has in place in relation to governance, including the internal controls in relation to the data protection procedures.

We will keep our understanding of arrangements during planning under review. We will update our work to reflect any emerging risks or findings that may suggest an additional significant weakness in arrangements and communicate these to you.

04 Audit materiality



Materiality

Materiality

For planning purposes, group materiality for 2023/24 has been set at £4.267 million and £2.239 million for CC and PCC respectively. The Group materiality is set at £4.570 million. These are set based on the PCC/CC's 2023/24 draft accounts.

Materiality will be re-assessed throughout the audit process.

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

	Group	CC	PCC
Materiality basis	2% of the gross expenditure on provisions of services	2% of the gross expenditure on provisions of services	2% of the assets
Planning materiality	£4.570 million	£4.267 million	£2.239 million
Performance materiality	£3.427 million	£3.200 million	£1.679 million
Audit differences	£0.228 million	£0.213 million	£0.112 million

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the PCC/CC's 2022/23 financial statements may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Joint Independent Audit Committee updated on any changes to materiality levels as the audit progresses.

We request that the Joint Independent Audit Committee confirm its 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 our performance materiality at 75% of our planning materiality. We have considered the factors of having a higher likelihood of material misstatements based on prior year adjustments.

We do not believe there are errors that are indicative of pervasive errors throughout the financial statements or a higher likelihood of misstatement in other areas. We have therefore used a higher end or 75% of our Planning Materiality as our Performance Materiality.

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 income statement and balance sheet 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 or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Joint Independent Audit Committee or are important from a qualitative perspective.

05 Scope of our audit

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.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

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

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 and report a commentary on those arrangements.

Audit process and strategy

Objective and Scope of our Audit scoping (cont’d)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Joint Independent Audit Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management and auditor specialists.

Audit process and strategy

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of experts in relation to areas, such as pensions and property valuations.

Our initial assessment of the key processes across the PCC/CC has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining 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 Joint Independent Audit Committee.

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 detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Debbie Hanson
(Key Audit Partner)

Vicky Chong
Manager

Nichola Vella
Lead Senior

Faizan Mohiuddin
Senior 1

Specialist 1
EY Pension Advisory

Specialist 2
PwC (consulting actuary to the NAO)

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 use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where management, third-party or EY specialists are expected to provide input for the current year audit are set out in the table below:

Area	Specialists
Valuation of land and buildings	Management Specialist – PCC's external specialist (NPS)
Pensions disclosure	Management Specialist – Hymans Robertson (the actuary to the Suffolk County Council Suffolk Pension Fund, and the Government Actuary's Department (GAD) EY Pensions advisory, PwC (Consulting Actuary commissioned by NAO)

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 Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

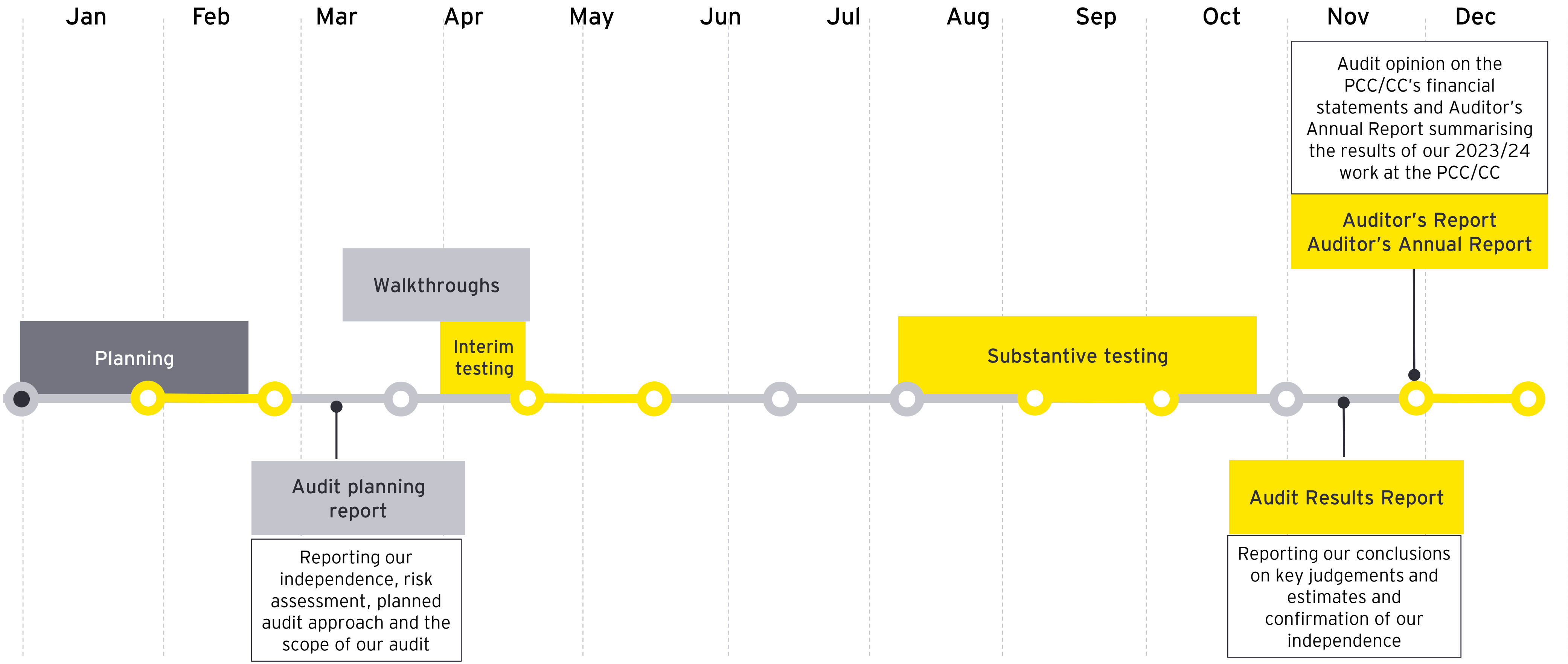
- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
-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

07 Audit timeline

Timetable of communication and deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24. The timeline is subject to the uncertainty created by the calling of a general election and any subsequent impact this has on the reset process, as outlined on pages 6 and 7 of this report. From time to time matters may arise that require immediate communication with the PCC/CC and we will discuss them with the PCC/CC as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard 2019 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 Debbie Hanson, 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. Examples include where we have an investment in the PCC/CC; 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.

At the time of writing, the ratio of non-audit fees does not exceed 1:1. 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.

Relationships, services and related threats and safeguards

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 your company. 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.

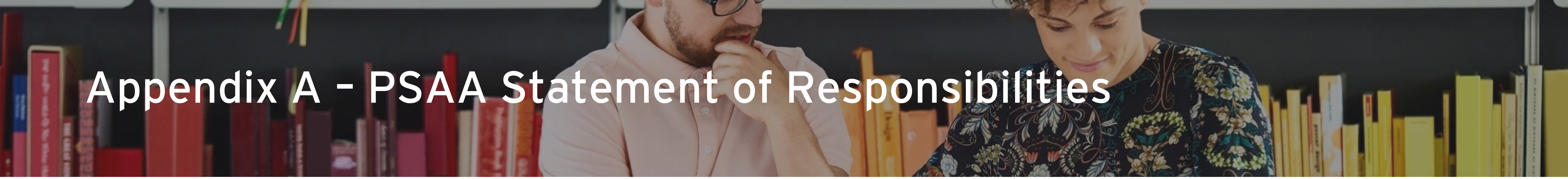
Other communications

EY Transparency Report 2023

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 period ended 30 June 2023 and can be found here: EY UK 2023 Transparency Report.

09 Appendices



Appendix A - PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the PCC/CC complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the PCC/CC should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

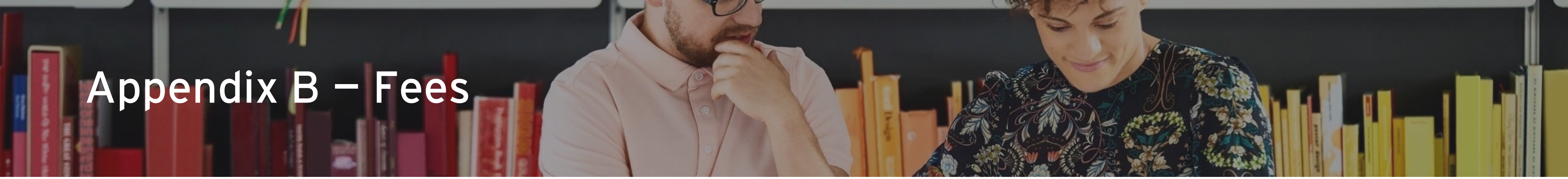
Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- *provide necessary resources to enable delivery of the plan;*
- *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- *during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.



Appendix B — Fees

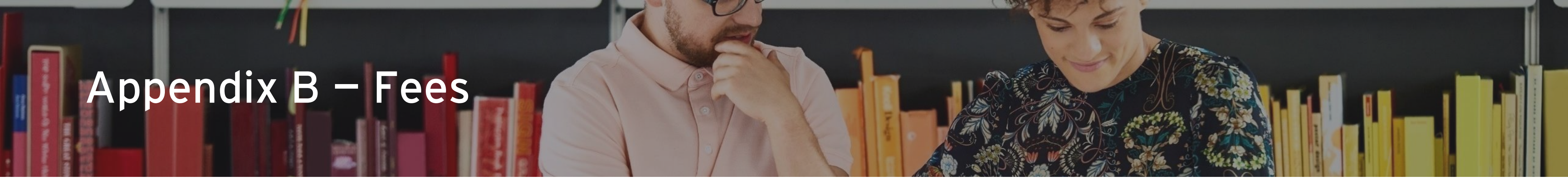
The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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.

The agreed fee presented on the next page is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the PCC/CC;
- The PCC/CC has an effective control environment; and
- The PCC/CC complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the PCC/CC should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the PCC/CC in advance.



Appendix B — Fees

	Planned Fee 2023/24	Scale Fee 2023/24	Proposed Fee 2022/23
	£		£
Scale fee **(see Note 1)**	136,464	136,464	49,984
Additional work not considered by the scale fee to comply with the requirements of ISA (UK) 315 (Revised). **(see Note 2)**	TBC	-	-
Additional work not considered by the scale fee to assess the Group/PCC's preparedness for the adoption of IFRS 16 and to consider related disclosures in the financial statements **(see Note 2)**	TBC	-	-
Total fees	**TBC**	**136,464**	**TBC**

All fees exclude VAT

(1) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the PCC/CC have to pay for the prior year, i.e. 2022/23 audit.

(2) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this.

The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example preparedness and additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Modified financial statement opinions
- New identified risks and/or issues in year (e.g. system changes)
- Audit scope changes since the scale fees were set (e.g. group audit procedures)

Appendix C — Accounting and regulatory update

Future accounting developments

The following table provides a high level summary of the accounting development that has the most significant impact on the Group/PCC:

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	▸ CIPFA have confirmed the re will be no further delay of the introduction of the leases standard IFRS 16. ▸ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability. ▸ Lease liabilities and right of use assets will be subject to more frequent remeasurement. ▸ The standard must be adopted by 1 April 2024 at the latest.	▸ The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements. ▸ The authority should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024. ▸ Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.

Appendix C — Accounting and regulatory update

Regulatory update

The following table provides a high level summary of the regularity update that has the most significant impact on the PCC/CC:

Name	Summary of key measures	Impact on 2023/24

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:
	▸ Risk Assessment
	▸ Understanding the entity's internal control
	▸ Significant risk
	▸ Approach to addressing significant risk (in combination with ISA 330)
	The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:
	▸ Drive consistent and effective identification and assessment of risks of material misstatement
	▸ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
	▸ Modernise ISA 315 to meet evolving business needs, including:
	    ▸ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
	    ▸ how auditors understand the entity's use of information technology relevant to financial reporting.
	▸ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.
		We will need to obtain an understanding of the IT processes related to the IT applications of the PCC/CC
		We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.
		When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.
		We also review the following processes for all relevant IT applications:
		▸ Manage vendor supplied changes
		▸ Manage security settings
		▸ Manage user access
		▸ Manage entity-programmed changes
		▸ Job scheduling and managing IT process

Appendix D — The Spring Report (A combined perspective on enhancing audit quality)

Overview

The Spring Report ('The Report') was released by the Audit Committee Chairs' Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced audit committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the report (accif.co.uk).

Appendix E – Required communications with the Joint Independent Audit Committee

We have detailed the communications that we must provide to the Joint Independent Audit Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Joint Independent Audit Committee 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 on the planned work to be undertaken ▶ The planned use of internal audit ▶ 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	Provisional Audit Planning Report - 5 July 2024, Joint Independent Audit Committee
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 ▶ Findings and issues regarding the opening balance on initial audits	Audit Results report - TBC

Appendix E — Required communications with the Joint Independent Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**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 - TBC
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 - TBC
Fraud	▶ Enquiries of the Joint Independent Audit Committee 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 ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Joint Independent Audit Committee responsibility	Audit Results report - TBC

Appendix E – Required communications with the Joint Independent Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**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 - TBC
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, 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 integrity, objectivity and independence and the appropriateness of safeguards put in place.	Provisional Audit Planning Report - 5 July 2024, Joint Independent Audit Committee Audit Results report - TBC
External confirmations	► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results report - TBC
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 Joint Independent Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Independent Audit committee may be aware of	Audit Results report - TBC

Appendix E — Required communications with the Joint Independent Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you When and where
Internal controls	► Significant deficiencies in internal controls identified during the audit	Audit Results report - TBC
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	Provisional Audit Planning Report - 5 July 2024, Joint Independent Audit Committee Audit Results report - TBC
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results report - TBC
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results report - TBC
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results report - TBC
Auditors report	► Key audit matters that we will include in our auditor's report ► Any circumstances identified that affect the form and content of our auditor's report	Audit Results report - TBC

Appendix F — Additional audit information

Regulatory update

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 International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

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 Joint Independent Audit Committee. The audit does not relieve management or the Joint Independent Audit Committee 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, company law 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 PCC/CC'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 PCC/CC to express an opinion on the financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Joint Independent Audit Committee reporting appropriately addresses matters communicated by us to the Joint Independent Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements ▶ Maintaining auditor independence

Appendix F — Additional audit information (cont'd)

Other required procedures during the course of the audit

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 the Whole of Government Accounts schedules or returns with the PCC/CC's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

We have included in **Appendix E** 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 locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- 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.

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations …"

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter	Implication
Suspected or known fraud or bribery	Potential fraud/breach of anti-bribery legislation
Health and Safety incident	Potential breach of section 2 of the Health and Safety at Work Act 1974
Payment of an unlawful dividend	Potential breach of Companies Act 2006
Loss of personal data	Potential GDPR breach
Allegation of discrimination in dismissal	Potential non-compliance with employment laws
HMRC or other regulatory investigation	Suspicion of non-compliance with laws/regulations
Deliberate journal mis-posting or allegations of financial impropriety	Potential fraud / breach of Companies Act 2006
Transacting business with sanctioned individuals	Potential breach of sanctions regulations

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years

Management response:	Audit response:
Timely communication of the matter to auditors (within a couple of days)	Initial assessment of the NOCLAR matter and its potential impact
Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both	Initial consultation with risk team to determine responsive procedures and the involvement of specialists
Scope the investigation, in discussion with the auditors	Understand and agree scope of management's investigation with support from specialists as needed
Evaluate findings and agree next steps	Evaluate findings and undertake appropriate audit procedures
Determine effect on financial statements including disclosures	Determine audit related impact including accounting and disclosure and audit opinion implications
Prepare a paper, summarising the outcome of the investigation and management's conclusions	Document and consult on the outcome of our procedures
Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.	Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Key Reminders:

- Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- Engage external specialists where needed
- Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

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