Joint Audit Plan for the Police and Crime Commissioner for Lancashire and the Chief Constable of Lancashire Constabulary

Year ending 31 March 2024

21 May 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the PCC and/or Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National Policing context

The police service faces an array of challenges. Levels of public trust are at historically low levels – a consequence of recent scandals (and repeated failures to address these) and a general and widespread belief that the police cannot adequately deal with crime. While overall levels of reported crime have declined over the last 10 years, so too have charge rates. In the period, police resources have been stretched by the combination of increasing crime complexity and growing non-crime demands.

Police spending has increased significantly in recent years, largely to support the successful recruitment of an additional 20,000 police officers. The decline in the charge rate has been halted, and the absolute number of charges increased in 2022/23 for the first time since 2013/14. Similarly, forces are increasing their focus on sexual assaults, while aiming to reduce the amount of time spent on non-crime demands such as responding to mental health incidents.
However, there is considerable uncertainty about the long-term impact of the additional officers. Forces are under financial strain to maintain officer numbers, while rapid recruitment has led to concerns over the adequacy of vetting arrangements and the burden placed on supervising officers. It will take time to assess whether these changes can lead to a sustained increase in the number of charges, and improvements in public trust.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft authority accounts are prepared to a high standard and are supported by strong working papers.

Reference: https://www.instituteforgovernment.org.uk/publication/performance-tracker-2023/police

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Constabulary Chief Finance Officer and the Chief Financial Officer representing the PCC.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Joint Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Joint Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the PCC and/or Chief Constable. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the PCC and/or Chief Constable.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.

2022/23 financial Statement Audit

As highlighted earlier, to address the current backlog of Local Government audits the Government is implementing a backstop. The Government has indicated a date of 30 September 2024 by which financial statements audits should be completed. Where they are not, the backstop will require auditors to issue a disclaimed opinion on all audits up to and including 2022/23. The 2021-22 Financial statements audit was concluded in March 2024. The financial statements for 2022/23 have not yet been published and we do not expect to undertake any further work on the 2022/23 audit. This will result in the issuance of a qualified opinion in line with the guidance and legislation currently being proposed by government. Our work on the 2023/24 financial statements will be progressed over the summer, including procedures to gain assurance over the balances brought forward from 2022/23.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of both the Police and Crime Commissioner for Lancashire ('the PCC') and the Chief Constable of Lancashire Constabulary ('the Chief Constable') for those charged with governance. Those Charged with governance are the PCC and the Chief Constable.

Respective responsibilities

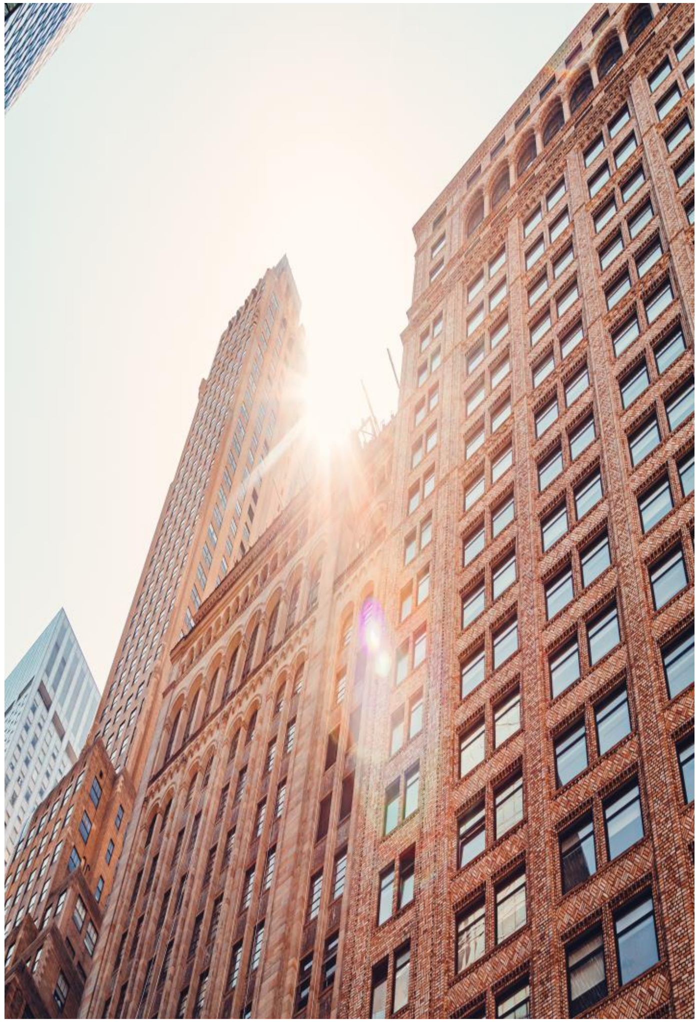
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the PCC and Chief Constable. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the PCC, Chief Constable and group's financial statements that have been prepared by management with the oversight of those charged with governance; and we consider whether there are sufficient arrangements in place at the PCC and the Chief Constable for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or those charged with governance of your responsibilities. It is the responsibility of the PCC and Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and Chief Constable is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the PCC and Chief Constable's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of property, plant and equipment; and
- Valuation of the net defined benefit pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The PCC and Chief Constable is required to prepare group financial statements that consolidate the financial information of the PCC and Chief Constable.

Materiality

We have determined group planning materiality to be £8.070m (21/22 £7.770m) for the group, £6.335 (21/22 £7.761m) for the PCC and £ 7.865 (21/22 £7.629) for the Chief Constable, which equates to 1.5% of 2021/22 gross expenditure adjusted for the effects of non-recurring items. At the time of drafting the audit plan the 2021/22 audited accounts are the latest available financial statements.

For our audit testing purposes we apply the lowest of these materiality amounts, which is £6.335m (21/22 £7.761m).

We will reconsider our materiality level upon receipt of the 2023/24 financial statements.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £0.317m (21/22 £0.381m).

Value for Money arrangements

At this stage, we have not identified any risks of significant weaknesses from our initial planning work. We will undertake more detailed planning work and continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor's annual report.

Any further risks identified will be reported to Those Charged with Governance promptly.

Audit logistics

Our planning took place during April 2024, our final accounts audit is expected to take place in between July – November. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our proposed fee for the audit will be £58,674 (PY: £25,188) for the Chief Constable and £104,727 (PY: £47,656) for the PCC, subject to the bodies delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA (UK) 240: Presumed risk of fraud in revenue recognition	Chief Constable, PCC and Group	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams of the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • all revenue received by the Chief Constable comes from the PCC; and • the culture and ethical frameworks of public sector bodies, including the Chief Constable comes from the PCC, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for the Chief Constable, PCC or Group.	N/A We have rebutted the presumed risk but we will continue to consider throughout the audit and will perform sample testing of material revenue streams as part of the audit.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud related to expenditure recognition – Practice Note 10	Chief Constable, PCC and Group	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of each of the Chief Constable, PCC and Group, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	N/A We have rebutted the presumed risk, but we will continue to consider throughout the audit and will perform sample testing of material expenditure streams as part of the audit.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Chief Constable, PCC and group	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatements.	We will: • make enquiries of finance staff regarding their knowledge of potential instances of management override of controls; • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals and those falling into certain criteria determined by the audit team; • test a sample of journals made during the year and during the period preparing the draft accounts for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgement applied made by management and consider their reasonableness about corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	PCC and Group	The PCC and Group revalue their land and buildings on a rolling three-year basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved, £203.7m as at 31 March 2022 (date of latest available figures) and the sensitivity of this estimate to changes in key assumptions. The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for land and buildings is specified in detail in the CIPFA Code and the sector is highly regulated by RICS, therefore we will focus our audit attention on assets that have large and unusual changes and/or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration. We have, therefore, identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; • evaluate the valuer's report to identity assets that have large and usual changes and/ or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable; • engage our own valuer to assess the instructions issued by the PCC to their valuer, the scope of the PCC's valuers' work, the PCC's valuers reports and the assumptions that underpin the valuations; • test a selection of asset revaluations performed during the year to see if they have been input correctly into the PCC and Group asset register, revaluation reserve and Comprehensive Income and Expenditure Statement; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially difference from current value at year-end.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the defined benefit pension fund net liability	Chief Constable, PCC and Group	The Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved £4,548m and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Group's pension fund valuation; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and perform any additional procedures suggested with the report; and • obtain assurances from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk		Reason for risk identification	Key aspects of our proposed response to the risk
Implementation of new ledger system	Chief Constable, PCC and Group	In January 2023 a new ORACLE system ledger system was implemented. The implementation of the new ledger system can cause disruption and potential loss of key financial information if the new system is not correctly implemented and there are not appropriate controls around data transfer.	We will: • determine the adequacy of the policies around security management, including the control of access to financial reporting applications and related databases by internal and remote users and authorised third parties; • determine whether controls for the acquisition, development and maintenance of the financial reporting system(s) are in place; • determine the adequacy of the operational procedures and controls for administering, executing and monitoring batch processes, scheduled jobs and/or interface configurations • determine whether adequate controls for new system (implemented during the financial period) have been established to ensure that new systems / applications which are developed or acquired are authorised, tested, approved, properly implemented and documented; and • perform testing to ensure data has been correctly transferred to the new ledger system.
Opening balance	Chief Constable, PCC and Group	The lack of audited opening balances will lead to reduced assurance and require additional testing of in-year and closing balances.	We are awaiting sector guidance on the approach to be taken to gaining assurance for opening balances where the previous audit has not been completed. We will continue to discuss this with management as we receive further information.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Police and Crime Commissioner for Lancashire	Yes	Purple - Audit of the financial information of the component using component materiality	• Management override of controls • Valuation of Land and Buildings • Valuation of net pension fund liability	Full scope audit performed by Grant Thornton UK LLP
Chief Constable of Lancashire Constabulary	Yes	Purple - Audit of the financial information of the component using component materiality	• Management override of control • Valuation of net pension fund liability	Full scope audit performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- we read your Narrative Reports and Annual Governance Statements and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and Chief Constable;
- we carry out work to satisfy ourselves that disclosures made in your Annual Governance Statements are in line with requirements set by CIPFA;
- we carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions;
- we consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the PCC and/or Chief Constable under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act; and
- we certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the PCC and Chief Constable's financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings Report.

Issue and risk previously communicated	Update on actions taken to address the issue
The PCC's valuer had to undertake an exercise to revalue a number of assets which had not been revalued during the year to ensure that there was no material misstatement in the assets values. We recommended that management should consider the outcome of the annual valuation and assess the likelihood of assets not revalued being materially misstated. Consider annual valuation for some of the PCC's largest valued assets as these would be most likely to result in material differences.	We will follow this up as part of our 23-24 financial statement work.
As part of the valuation process the valuer had not made a specific allowance for external works and a number of issues were identified including incorrect BCIS rates and regional factor used. We recommended that instructions should be provided to the valuer to ensure any specific allowances for external works are considered as part of future valuations. A process of quality assuring the work of the valuer should be introduced my management.	We will follow this up as part of our 23-24 financial statement work.
Our work on property, plant and equipment closing balances highlighted that there were a number of assets which were fully depreciated but still held on the asset register with negative asset lives, yet the assets were still in use. There is a risk that the asset lives applied are not appropriate and that there is an incorrect profiling of depreciation. We recommended that management should perform an exercise to review and update the asset register and assess whether asset lives are appropriate.	We will follow this up as part of our 23-24 financial statement work.
The PCC chose to make a prior period adjustment of £0.317m and £2.395m in respect of issues identified during the 2020/21 audit relating to our audit of property, plant and equipment. The PCC chose to correct an immaterial prior period error by restating the previously reported results rather than by correcting it in the current period, as this is not required and is unnecessary under IAS 8. We recommended that prior period adjustments should only be undertaken to correct material prior period errors in line with IAS 8.	We will follow this up as part of our 23-24 financial statement work.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the PCC and Chief Constable's financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings Report.

Issue and risk previously communicated	Update on actions taken to address the issue
Included in the cash and cash equivalents balance is £2.1m related to seized cash held awaiting conclusion on investigations which will determine the outcome for the seized funds. Whilst there is no specific guidance on 3rd party assets in the CIPFA Code of Practice on local authority accounting 2021-22, the definitions make it clear that an asset (or economic resource) should only be accounted for if it has the potential to produce economic benefits or service potential. There is a need for an assessment as to whether such monies has the potential to produce economic benefits or service potential, if not it should be excluded from the cash and cash equivalent balance and should not be accounted for on the balance sheet. We recommended that management should undertake an assessment of the likelihood that any seized monies has the potential to produce economic benefits or service potential when determining how it is accounted for.	We will follow this up as part of our 23-24 financial statement work.
Our audit work did highlight that no depreciation had been charged on assets during the year for assets revalued as at 31/3/22. On a revalued asset, a transfer between the revaluation reserve and capital adjustment account shall be carried out that represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost. We recommended that depreciation should be charged on all assets before any revaluation adjustments are applied, in line with accounting standards and the CIPFA Code of Practice.	We will follow this up as part of our 23-24 financial statement work.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality for the group, PCC and Chief Constable based on a proportion of the 2021/22 gross expenditure for the financial year. For our audit testing purposes we apply the lowest of these materiality's, which at the planning stage of our audit is £6.335m relating to the PCC, which equates to 1.5% of the 2021/22 accounts draft gross expenditure for the period (the latest available accounts). In the prior year the lowest materiality threshold related to the Chief Constable at £7.629m. The group materiality is £8.070m (2021/22 £7.770m).	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality at 2% of the note value for senior officer remuneration.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
4	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group, PCC and Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.317m (PY £0.381m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Audit Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. For our audit testing purposes we apply the lowest of these materialities, which is £6.335m (PY £7.629m), which equates to 1.5% of the 2021/22 Chief Constable's gross expenditure for the year.

	Amount (£000)	Qualitative factors considered
Materiality for the Group and PCC financial statements	8,070	Materiality equates to 1.5% of your 2021/22 gross expenditure for the group. This assessment reflects the fact that you operates in a stable, publicly funded environment and no significant control deficiencies have been identified.
Materiality for the Police and Crime Commissioner	6,335	Materiality equates to 1.5% of your 2021/22 gross expenditure for the PCC single entity financial statements. In determining materiality, separate amounts are identified for the group and the PCC and CC as components of the group. In carrying out our audit testing, we apply the lowest materiality identified. This materiality is the lowest and will be applied when carrying out our audit testing.
Materiality for the Chief Constable	7,865	Materiality equates to 1.5% of your 2021/22 gross expenditure for the Chief Constable single entity financial statements.
Materiality for senior officer remuneration	2% of the total senior officer remuneration as per the draft accounts.	This reflects public sensitivity in the pay of senior officers in the public sector.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on the following page.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle EBS	Financial reporting	We will: • test the design and implementation of the ITGCs; • review the adequacy of the entity's policies for administering security, including the control of access to financial reporting applications and related databases by internal and remote users and authorised third parties; • determine whether controls for the acquisition, development and maintenance of the entity's financial reporting system(s) are in place. To ensure that program changes affecting the entity's financial reporting are authorized, designed based on technical specifications, and appropriately tested before being promoted into the production environment; • determine the adequacy of the entity's operational procedures and controls for administering, executing and monitoring batch processes, scheduled jobs and/or interface configurations; • determine the adequacy of the entity's operational procedures and controls to ensure compliance with CASS rules for data retention and to prevent and detect potential CASS breaches; and • determine whether adequate controls for new system have been established to ensure that new systems / applications which are developed or acquired are authorised, tested, approved, properly implemented and documented.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

At this stage, we have not identified any risks of significant weaknesses from our initial planning work. We will undertake more detailed planning work and continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor's annual report.

Any further risks identified will be reported to Those Charged with Governance promptly.

Audit logistics and team

Michael Green, Key Audit Partner

Michael is the main point of contact for management and committee members. He will share his knowledge and experience across sector providing challenge and share good experience. Michael will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work.

Gareth Winstanley, Audit Manager

Gareth will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis.

Chelsey Taylor, Audit In-charge

Chelsey will lead the team and will be the day-to-day contact for the audit. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. She will undertake the technical aspects of the audit, coach the junior team members and review their work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Reports and the Annual Governance Statement(s)
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you.
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017 PSAA awarded a contract of audit for Lancashire PCC and CC to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £56,352 for the Chief Constable and £96,274 for the PCC.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the PCC and Chief Constable will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24		
	PCC	CC	Total
Chief Constable – PSAA scale fee	-	£56,352	£56,352
PCC – PSAA scale fee	£96,274	-	£96,274
ISA 315 – not included in scale fee	£3,953	£2,322	£6,275
Auditor valuation expert – not included in scale fee	£4,500	-	£4,500
Opening balances procedures	TBC	TBC	TBC
Total audit fees (excluding VAT)	£104,727	£58,674	£163,401

Previous year

In 2022/23 the scale fee set by PSAA were £20,688 for the PCC and £39,656 for the Chief Constable. Due to the delay in the preparation of the 2022/23 financial statements we have not been able to complete our audit. We are expecting it to be disclaimed due to the Government backstop.

If the opinion on the 2022/23 audit is disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by police bodies from 1 April 2024. IFRS 16 is a standard which sets out the principles for the recognition, measurement, presentation and disclosure of leases, and it replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is the year before the implementation of IFRS 16, we will need to consider the work being undertaken by the PCC and Chief Constable to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

The requirements of IFRS 16 are set out in the CIPFA publication IFRS 16 Leases - An early guide for local authority practitioners and PCC and/or Chief Constables will need to aide by the requirements set out in the CIPFA Code of Practice on Local Authority Accounting.

PCC and Chief Constable's systems and processes

This is the year when PCC and Chief Constables will need to consider the impact the adoption of IFRS 16 will have on their 2024/25 accounts. This will cover the following areas:

- accounting policies and disclosures
- application of judgment and estimation

The PCC and Chief Constable will need to identify which systems capture and maintain new lease data and ongoing maintenance requirements. We will need to consider the work being undertaken by the PCC and Chief Constable in updating relevant internal controls to reflect these changes in accounting policies and processes.

Planning enquiries

As part of our planning risk assessment procedures, we have sent enquiries over. We have since received responses and management will present these as a separate agenda item in the July Joint Audit Committee.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group, PCC and Chief Constable.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audits.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically [PCC and/or Chief Constable tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Chief Finance/ Chief Financial Officer (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Chief Finance/ Chief Financial Officer to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Joint Audit Committee (at next available Joint Audit Committee meeting or in writing to Joint Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

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