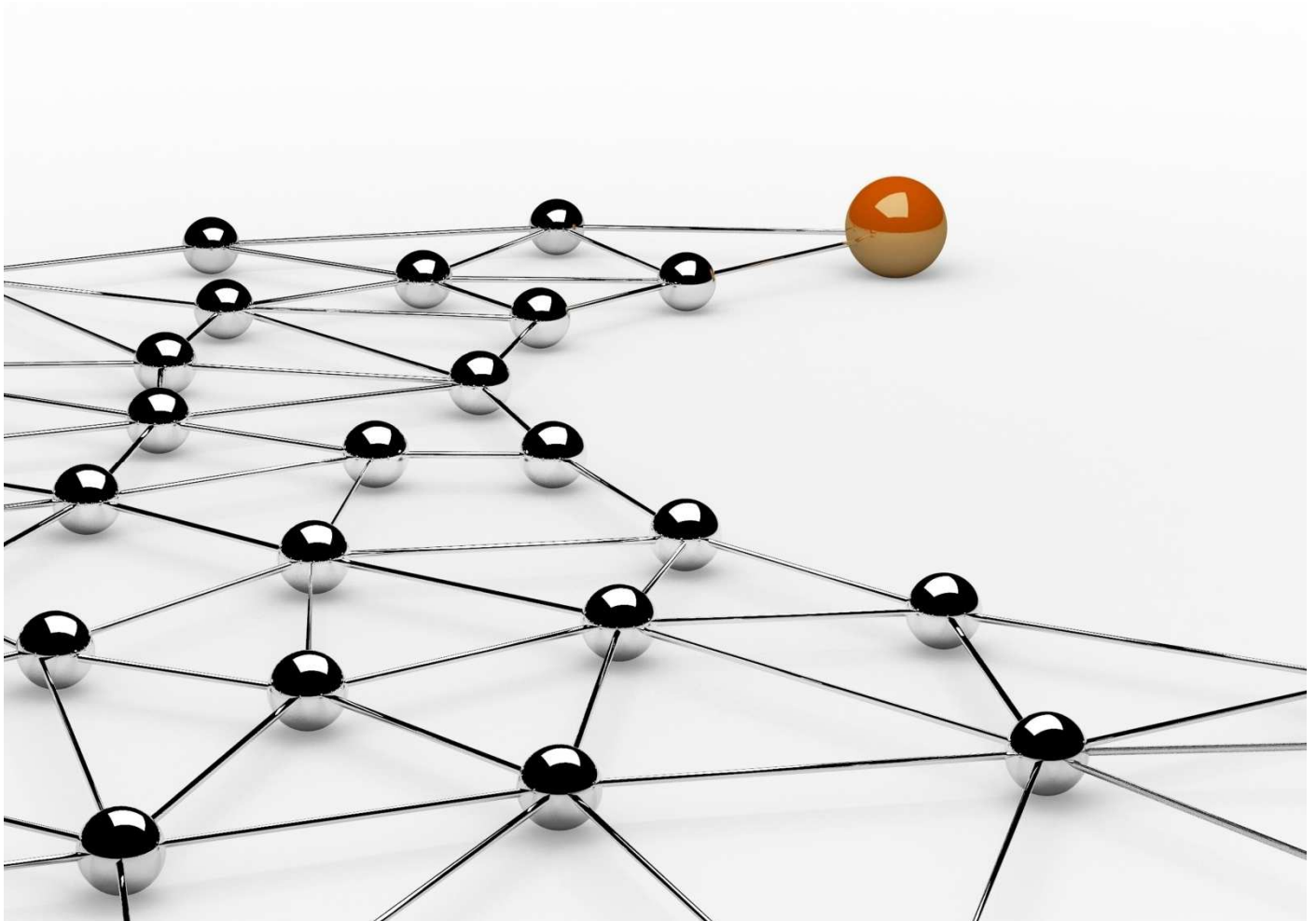


# Audit Strategy Memorandum

Chief Constable for North Yorkshire – year ended 31  
March 2015

March 2015



Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Mr D Jones  
Chief Constable  
North Yorkshire Police  
North Yorkshire Police Headquarters  
Newby Wiske  
Northallerton  
North Yorkshire  
DL7 9HA

9 March 2015

Dear Mr Jones

**Audit Strategy Memorandum for the year ending 31 March 2015**

We are delighted to present our Audit Strategy Memorandum for the Chief Constable for North Yorkshire for the year ending 31 March 2015.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Joint Independent Audit Committee meeting on 16 March 2015. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6314.

Yours sincerely

Cameron Waddell  
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Chief Constable for North Yorkshire and we take no responsibility to any member or officer in their individual capacity or to any third party.

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# 01 Purpose and Background

## Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of the Chief Constable for North Yorkshire (the Chief Constable) for the year ending 31 March 2015, and forms the basis for discussion at the Joint Independent Audit Committee meeting on 16 March 2015.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Chief Constable which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit.

## Scope of engagement

We are appointed to perform the external audit of the Chief Constable for the year to 31 March 2015. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

## Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out our respective responsibilities as the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

We comply with the statutory requirements governing audit work, in particular the:

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

We, as auditors to the Chief Constable are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

Our audit does not relieve management or the Chief Constable, as those charged with governance, of their responsibilities.

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

# 02 Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

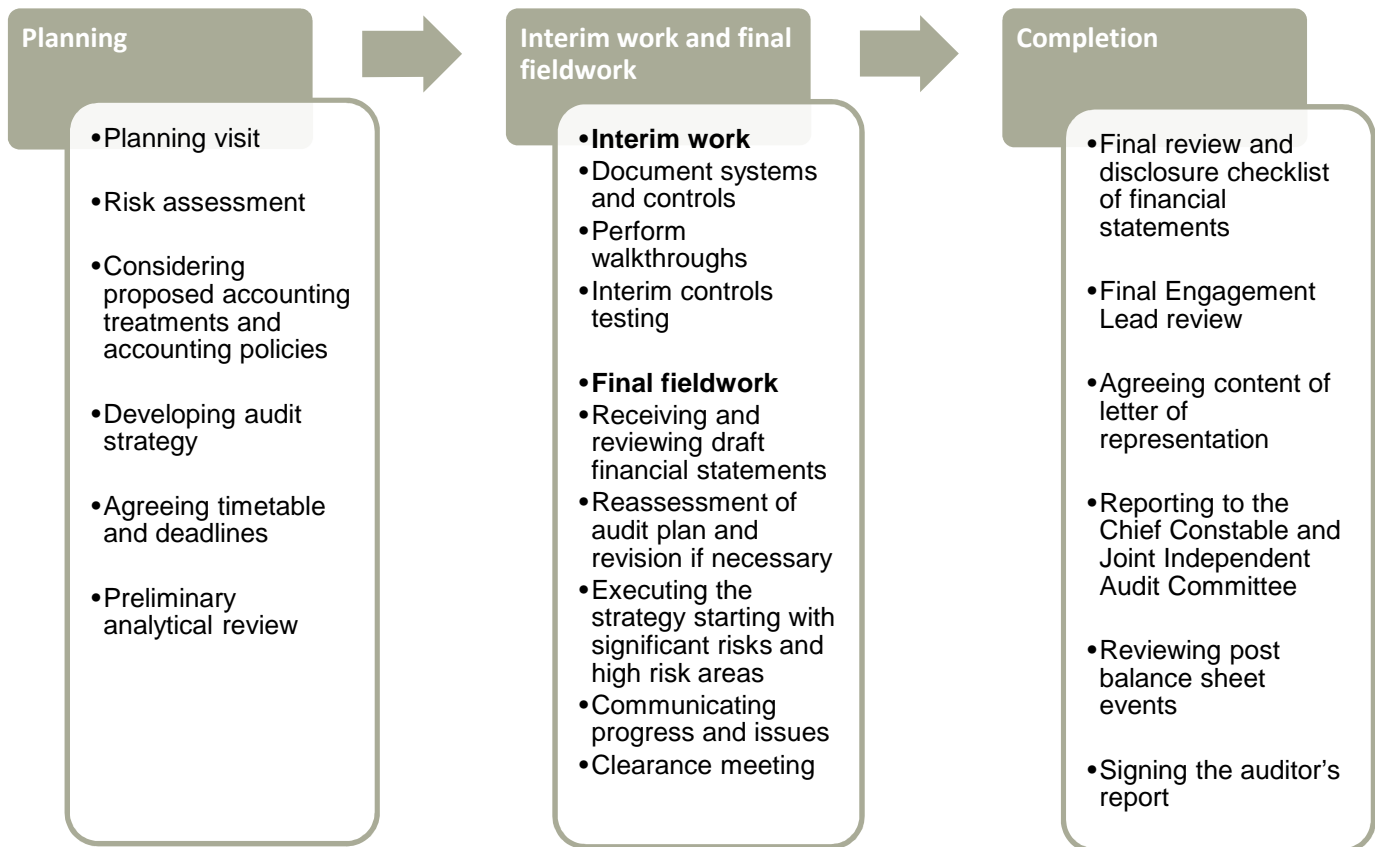
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram overleaf outlines the procedures we perform at the different stages of the audit.



## Group audit approach

The Chief Constable is part of a group. The group consists of the Police and Crime Commissioner and Chief Constable. We are responsible for the direction, supervision and performance of the group audit. We are also the external auditor for the Police and Crime Commissioner as a single entity.

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We have met with internal audit to identify any work to rely on, as reported in our External Audit/Internal Audit Protocol for Liaison.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

Items of account	Other auditor	Nature of assurance to obtain from the auditor
Defined benefit liability and associated IAS 19 entries and disclosures.	North Yorkshire County Council Pension Fund Auditor (Deloitte LLP)	Accuracy of data supplied to the pension fund actuary by the pension fund

## Service organisations

There are material entries in your financial statements where the Chief Constable is dependent on an external organisation. We call these entities service organisations. The table below outlines our approach to understanding the services the Chief Constable receives from each organisation and the effectiveness of controls in place to reduce the risk of material misstatement in the financial statements.

Nature of services provided and items of account	Name of service organisation	Audit approach to be adopted
Defined benefit liability and associated IAS 19 entries and disclosures.	Mouchel	Testing of controls and/or substantive testing of data sent to/from the service organisation by the Chief Constable.
Defined benefit liability and associated IAS 19 entries and disclosures.	North Yorkshire County Council	Testing of controls and/or substantive testing of data sent to/from the service organisation by the Chief Constable.

## The work of experts

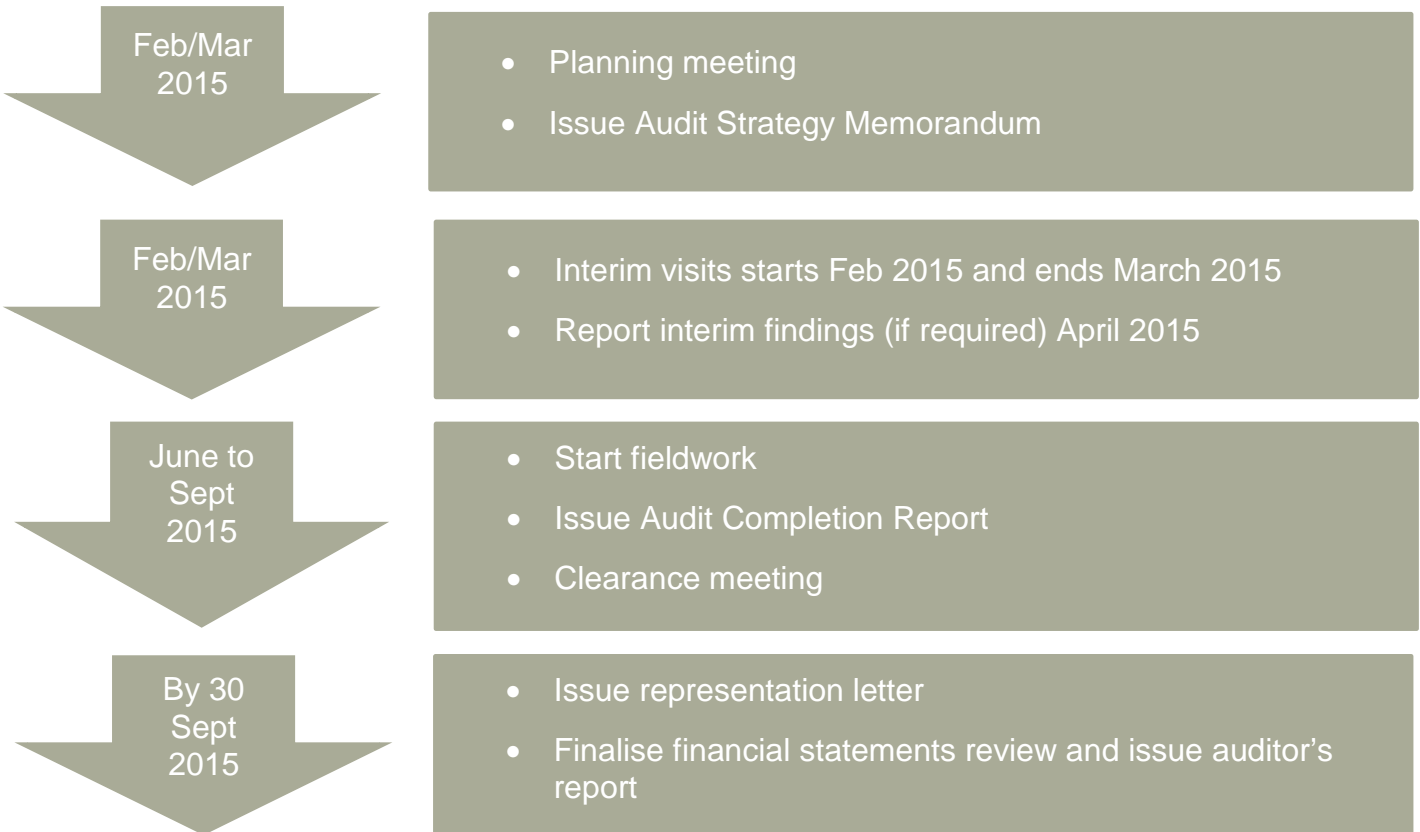
We plan to rely on the work of the following experts:

Item(s) of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures.	Actuaries: <ul style="list-style-type: none"> <li>Government Actuary's Department (GAD) for police officers; and</li> <li>Mercers for all other employees.</li> </ul>	Audit Commission's consulting actuary (PWC).



## Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



# 03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Chief Constable faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

## Audit risks

### Management override of controls

#### Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we will address this risk

We will address this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

### Revenue recognition

#### Description of the risk

There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk on all audits.

#### How we will address this risk

We will evaluate the design and implementation of controls over year-end income accruals and perform procedures to establish that income is included in the correct year.

## Pensions entries (IAS 19)

### Description of the risk

The financial statements are likely to contain material pensions entries in respect of retirement benefits. The calculation of these pensions figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

### How we will address this risk

We will discuss with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts.

In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the actuaries; and
- consider the reasonableness of the actuaries outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.

# 04 Value for Money Conclusion

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

We set out significant risks that we will address through our work.

## Financial resilience/3Es: Medium Term Financial Planning

### Description of the risk

There are increased financial pressures following the central government budget announcement in December 2014 of an additional 5.1% grant cut for 2015/16 and 4 years of budget cuts already having been made. The risk to financial resilience and the 3Es is therefore increased due to these factors.

### How we will address this risk

We will:

- assess the MTFP to ensure that the funding update from central government issued in 2014 has been included in the updated plan; and
- assess the MTFP to ensure that it is aligned to the estates strategy and the decision notices in respect of the move from Newby Wiske.

# 05 Your audit team

Below are your audit team and their contact details.

Engagement lead and  
director

- Cameron Waddell
- [Cameron.waddell@mazars.co.uk](mailto:Cameron.waddell@mazars.co.uk)
- 0191 383 6314

Engagement senior  
manager

- Gareth Roberts
- [Gareth.roberts@mazars.co.uk](mailto:Gareth.roberts@mazars.co.uk)
- 0191 383 6323

Engagement assistant  
manager

- Sandra Swan
- [Sandra.swan@mazars.co.uk](mailto:Sandra.swan@mazars.co.uk)
- 0191 383 6309

# 06 Fees for audit and other services

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

Area of work	2014/15 Proposed fee	2014/15 Scale Fee	2013/14 Actual fee
Code audit work	£20,000	£20,000	£20,000
<b>Total fee</b>	<b>£20,000</b>	<b>£20,000</b>	<b>£20,000</b>

At this stage, we are not proposing any non-audit work.

# Appendices

# Appendix A - Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement:

- there are no relationships between us and any of our related or subsidiary entities, and
- you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell.

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



# Appendix B – Materiality

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

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

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

# Appendix C – Key communication points

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

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

## **Form, timing and content of our communications**

We will present to the Chief Constable the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being issued to the Chief Constable and also presented to the Joint Independent Audit Committee and their comments will be incorporated as appropriate.

## **Key communication points at the planning stage as included in this Audit Strategy Memorandum**

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

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

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.