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Appendix A – Key communication points
Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for the Chief Constable of Greater Manchester (the Chief Constable) for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

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

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07979 164467.

Yours faithfully

Signed: [Signature]

Gareth Davies
Mazars LLP
1. **ENGAGEMENT AND RESPONSIBILITIES SUMMARY**

**Overview of engagement**
We are appointed to perform the external audit of the Chief Constable for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/](https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)

**Our responsibilities**
Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

- **Audit opinion**
  We are responsible for forming and expressing an opinion on the financial statements.
  Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Chief Constable for the year.

- **Value for Money**
  We are required to conclude whether the Chief Constable has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

- **Electors’ rights**
  The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Chief Constable and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or 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), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

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.

The Chief Constable is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Joint Audit Panel as those charged with governance.
In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.
3. AUDIT SCOPE, APPROACH AND TIMELINE

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

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach
Our audit approach is a risk-based approach primarily driven by the risks 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.

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. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

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

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Joint Audit Panel
- Reviewing post balance sheet events
- Signing our opinion
- Updating our understanding of the Chief Constable
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures
- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting
- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions
- Completion July 2019
- Planning November 2018 – February 2019
- Interim Feb-March 2019
- Fieldwork June-July 2019
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 will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

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

### Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Chief Constable that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Chief Constable and our planned audit approach.

<table>
<thead>
<tr>
<th>Items of account</th>
<th>Service organisation</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>Trafford MBC</td>
<td>We plan to obtain assurance by understanding the processes and controls that the Chief Constable has in place to ensure that transactions are processed correctly. Our approach will also include sample testing of transactions.</td>
</tr>
<tr>
<td>Payment of pension lump sums and monthly pension payroll to retirees under the Police Pension schemes.</td>
<td>XPS (previously Kier).</td>
<td>As above</td>
</tr>
</tbody>
</table>
4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Initial threshold (€’000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall materiality</td>
<td>10,653</td>
</tr>
<tr>
<td>Performance materiality</td>
<td>6,392</td>
</tr>
<tr>
<td>Trivial threshold for errors to be reported to the Audit Committee</td>
<td>320</td>
</tr>
</tbody>
</table>

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 based on quantitative and qualitative factors.

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.

Our provisional materiality is set based on a benchmark of your 2017/18 (part year 8 May 2017 – 31 March 2018) gross expenditure at the surplus/deficit on the provision of services level. We have calculated a headline materiality figure and have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Joint Audit Panel.

We consider that gross expenditure at the surplus/deficit on the provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.
4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 1.5% of the stated benchmark based on the 2017/18 audited financial statements and we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £10.653m. After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council’s financial statements. We have therefore set our performance materiality at 60% of our overall materiality. As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality
We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following item of account:
- Officers’ Remuneration over £50,000 - Bandings - £5,000 (reflecting the published salary bandings)

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Joint Audit Panel that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £320,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gareth Davies.

Reporting to the joint Audit Panel
To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:
• summary of adjusted audit differences;
• summary of unadjusted audit differences; and
• summary of disclosure differences (adjusted and unadjusted).
5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

**Significant risk**
A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

**Enhanced risk**
An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

**Standard risk**
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Management override of control</td>
</tr>
<tr>
<td>2</td>
<td>Revenue recognition</td>
</tr>
<tr>
<td>3</td>
<td>Defined benefit liability valuation</td>
</tr>
</tbody>
</table>
We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Joint Audit Panel.

### Significant risks

<table>
<thead>
<tr>
<th>Description of risk</th>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Management override of controls</strong></td>
<td></td>
</tr>
<tr>
<td>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</td>
<td></td>
</tr>
<tr>
<td>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</td>
<td></td>
</tr>
<tr>
<td><strong>2. Revenue recognition</strong></td>
<td></td>
</tr>
<tr>
<td>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the income sources of the Chief Constable.</td>
<td></td>
</tr>
<tr>
<td>We have established an understanding of the Chief Constable’s income sources and our assessment conclusion is that we can rebut the risk of revenue recognition for all areas of income. Our audit approach will however incorporate testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts.</td>
<td></td>
</tr>
<tr>
<td><strong>3. Defined benefit liability valuation</strong></td>
<td></td>
</tr>
<tr>
<td>The financial statements contain material pension entries in respect of retirement benefits for both the Police Officer Pension Scheme and the Local Government Pension Scheme. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement</td>
<td></td>
</tr>
<tr>
<td>To address this risk we will:</td>
<td></td>
</tr>
<tr>
<td>• identify and assess the controls put in place by management to ensure that the pension fund liability is not materially misstated.</td>
<td></td>
</tr>
<tr>
<td>• evaluate the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations.</td>
<td></td>
</tr>
<tr>
<td>• Consider the reasonableness of the actuaries outputs, referring to an expert’s report on all actuaries nationally which is commissioned annually by the National Audit Office.</td>
<td></td>
</tr>
<tr>
<td>• check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports from your actuaries.</td>
<td></td>
</tr>
</tbody>
</table>
6. VALUE FOR MONEY

Our approach to Value for Money
We are required to form a conclusion as to whether the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:
• informed decision making;
• sustainable resource deployment; and
• working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:

<table>
<thead>
<tr>
<th>Risk assessment</th>
<th>Risk mitigation work</th>
<th>Other procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAO Guidance</td>
<td>Planned procedures to mitigate the risk of forming an incorrect conclusion on arrangements</td>
<td>Consider the work of regulators</td>
</tr>
<tr>
<td>Sector-wide issues</td>
<td></td>
<td>Consider the Annual Governance Statement</td>
</tr>
<tr>
<td>Your operational and business risks</td>
<td></td>
<td>Consistency review and reality check</td>
</tr>
<tr>
<td>Knowledge from other audit work</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Significant Value for Money risks
The NAO’s guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at Greater Manchester Police being inadequate. As outlined above, we draw on our understanding of the Chief Constable and partners, the local and national economy and wider knowledge of the public sector.

Set out below and overleaf are the significant VFM risks we have identified relating to our 2018/19 VFM work.

Description of significant risk Planned response

Financial Sustainability
The financial position that Greater Manchester Police faces continues to be challenging in 2018/19 and beyond. The Police grant for 2018/19 remained broadly at the same level as that received in 2017/18 with no additional funding to support increasing costs and demands on police services. Despite an increase of £12 in the 2018/19 precept to help maximise resources, the revenue budget still set out a savings requirement for 2018/19 of £10.9m with a further reduction of £88.1m by 31 March 2022.

The position has been exacerbated by the impact of the HM Treasury Valuation Directions on unfunded public sector pension schemes that has added £14.1m to employer contributions for 2019/20. Additional funding has been made available in 2019/20 to cover this additional cost however, this will not continue past 2019/20.

We will review your arrangements for identifying and updating savings plans alongside the arrangements in place to help deliver the budget and longer term financial plans.
### Description of significant risk - Continued

#### IS Transformation

The Chief Constable and the Chief Officer's Group (COG) have developed a Target Operating Model (TOM) for the future delivery of policing services. The IS transformation programme (ISTP) is a key element of the change agenda that GMP is pursuing under the TOM that is designed to fundamentally change the operational policing model. iOPS forms the main part of the ISTP and its implementation date has been subject to a number of delays with an anticipated "go live" yet to be confirmed.

<table>
<thead>
<tr>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will review the operational and governance arrangements established to support the delivery of the IS Transformation programme and particularly the implementation of the iOPS service stream given the delays to date.</td>
</tr>
</tbody>
</table>
7. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Chief Constable’s appointed auditor
We have discussed the proposed 2018/19 audit fee of £45,000 with Senior Officers and expect the final fee to be agreed shortly.

<table>
<thead>
<tr>
<th>Service</th>
<th>2017/18 fee</th>
<th>2018/19 fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code Audit Work</td>
<td>£65,000</td>
<td>£45,000 *</td>
</tr>
</tbody>
</table>

* - Subject to final confirmation

Fees for non-PSAA work
At this stage, there is no non-PSAA work that we plan to carry out. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.
8. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council’s Ethical Standard. 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 ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gareth Davies in the first instance.

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

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.
ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

<table>
<thead>
<tr>
<th>Required communication</th>
<th>Audit Strategy Memorandum</th>
<th>Audit Completion Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our responsibilities in relation to the audit of the financial statements and our wider responsibilities</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Planned scope and timing of the audit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant audit risks and areas of management judgement</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Our commitment to independence</td>
<td>✓ ✓</td>
<td></td>
</tr>
<tr>
<td>Responsibilities for preventing and detecting errors</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Materiality and misstatements</td>
<td>✓ ✓</td>
<td></td>
</tr>
<tr>
<td>Fees for audit and other services</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant deficiencies in internal control</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant findings from the audit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant matters discussed with management</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Our conclusions on the significant audit risks and areas of management judgement</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Summary of misstatements</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Management representation letter</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Our proposed draft audit report</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>