Police and Crime Commissioner and Chief Constable for Lincolnshire Police

Audit progress report

Year ended 31 March 2019

8 November 2019

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Building a better working world

The Police and Crime Commissioner for and Chief Constable of Lincolnshire Police

8 November 2019

Lincolnshire Police Headquarters
Deepdale Lane
Nettleham
LN2 2LT

Dear Marc and Bill

We are pleased to attach our audit progress report for the forthcoming meeting of the Joint Independent Audit Committee. This report summarises the work performed to date, and our preliminary audit conclusion in relation to the audit of the Police and Crime Commissioner for and Chief Constable of Lincolnshire Police for 2018/19.

We have completed a great deal of our audit of the Police and Crime Commissioner for and Chief Constable of Lincolnshire Police (the PCC and CC) for the year ended 31 March 2019, but there are still significant areas of work ongoing. We therefore present this report to summarize the progress to date, and will present our full audit results report, on the conclusion of all of our audit procedures, to the Joint Independent Audit Committee at its next sitting.

This report is intended solely for the use of the Joint Independent Audit Committee, other members of the PCC and CC, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their continuing help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Joint Independent Audit Committee meeting on 19 November 2019.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

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Audit progress report

Scope update

In our audit planning report tabled at the 23 January 2019 Joint Independent Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are carrying out our audit in accordance with this plan, with the following exceptions:

- Confirmation of materiality: In our Joint Independent Audit Committee Planning Report, we communicated that we had yet to set our materiality levels. This has now been done based on your draft financial statements for the year ended 31 March 2019. Our audit procedures are being performed using the materiality levels set out below:

	Basis of materiality	Materiality £'000	Performance materiality (at 50%) £'000	Nominal amount for reporting misstatements (at 5%) £'000
Group	1% on Gross Revenue Expenditure including Pension Interest Costs and Interest Payable	1,901	951	95
PCC (single entity)	1% of Gross Assets	656	328	33
CC (single entity)	1% on Gross Revenue Expenditure including Pension Interest Costs and Interest Payable	1,545	773	77
Pension fund	1% on benefits payable including commutations & lump sums	400	200	20

- Changes in scope:

Description	Details of changes in our scope
Prior period adjustment	Management identified that the costs relating to the G4S element of the Local Government Pension Scheme had been included in the results of the PCC in error, following the move of the contract to the Chief Constable in 2016/17. This resulted in a material error in the financial statements of the PCC and the CC for the years 2016/17 and 2017/18 (no impact for the group). Management has corrected this error (as required by the Code) as a prior period adjustment.
Guaranteed Minimum Pension and McCloud judgement in respect of the defined benefit pension obligations	In July 2019 the Supreme Court denied the Government leave to appeal the "McCloud" judgement, which related to the transitional protection granted to certain members as part of the 2014/15 changes to the LGPS, Police and Fire schemes. The decision therefore creates a constructive obligation as at the balance sheet date which would increase the liability of the Pension Fund. We requested the PCC and CC to request of its actuaries revised actuarial reports to effect the adjustment to the financial statements. We have extended our audit procedures to review management's consideration of the judgment and applied sensitivity analysis to the amendments made by the actuaries in response to the McCloud judgment. The PCC and CC actuaries have also considered the result of the Lloyds Bank High Court case, whereby all pension schemes must equalise Guaranteed Minimum Pensions between males and females.

Audit progress report

Status of the audit

We have completed our audit of the PCC and CC's financial statements for the year ended 31 March 2019 in the following areas:

- Cash, Investments and Borrowings
- Intangible assets
- Grant income
- Accounts receivable
- Reserves
- Prior period adjustment
- Review of information published alongside the financial statements (Narrative report and Annual Governance Statement).

We have sample testing still to conclude in respect of the following areas:

- Other income
- Expenditure
- Payroll costs
- Creditors/accruals/provisions
- Police pension fund
- Property, plant and equipment movements in the year

We have engaged our internal specialists to assist with the audit of the following areas and await the finalisation of their results:

- Valuation of property, plant and equipment
- Assumptions made in respect of the McCloud judgement specifically pertaining to the police pension fund.

We have no significant matters to report at this stage, however until work is complete, further amendments could arise.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit progress report

Audit differences

To date we have identified a small number of audit differences and disclosure amendments to be made in the final financial statements which have been discussed with management. As noted above, until work is complete, further amendments could arise. We will therefore present all unadjusted differences greater that our nominal reporting amount to you in our final audit results report. We will ask that they be corrected or a rationale as to why they are not corrected be approved by the PCC and CC and included in the Letters of Representation.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Nevertheless, if during the audit we identify improvement recommendations in relation to management's financial processes and controls we will communicate these to you. At the time of writing, no such observations have been made.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Joint Independent Audit Committee.

Audit progress report

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

Significant value for money risk	Arrangements affected
The latest Medium Term Financial Plan (MTFP) shows there is a gap between funding and expenditure in years 2019/20-2021/22, with savings of £3.5m, £6.4m & £6.9m respectively required to achieve a balanced budget. Savings plans have yet to be fully developed to address the gap. Given the level of the savings required this presents a risk to the PCC's and CC's financial position.	Deploy resources in a sustainable manner
Work by your predecessor external auditors and Internal Audit has highlighted a number of staff appointments and payments which have not followed recruitment and financial procedures. Whilst the amounts are not material, these may indicate a wider potential risk around governance and control	Take informed decisions

We are currently concluding our work in this area, but do not anticipate having matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the PCC/CC's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

This progress report, and the audit results report which will follow will include all matters arising from our audit which we consider should be reported to you.

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you **and your Joint Independent Audit Committee** consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Joint Independent Audit Committee on 19 November 2019.

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