Police and Crime Commissioner for Lincolnshire and Chief Constable of Lincolnshire Police Audit results report

Year ended 31 March 2019

22 May 2020

Building a better working world

Lincolnshire Police Headquarters
Deepdale Lane
Nettleham
LN2 2LT

Dear Marc and Bill

We are pleased to attach our audit results 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 Lincolnshire and Chief Constable of Lincolnshire Police for 2018/19.

We have substantially completed our audit of the Police and Crime Commissioner for Lincolnshire and Chief Constable of Lincolnshire Police (the PCC and CC) for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Joint Independent Audit Committee, 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 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 10 June 2020.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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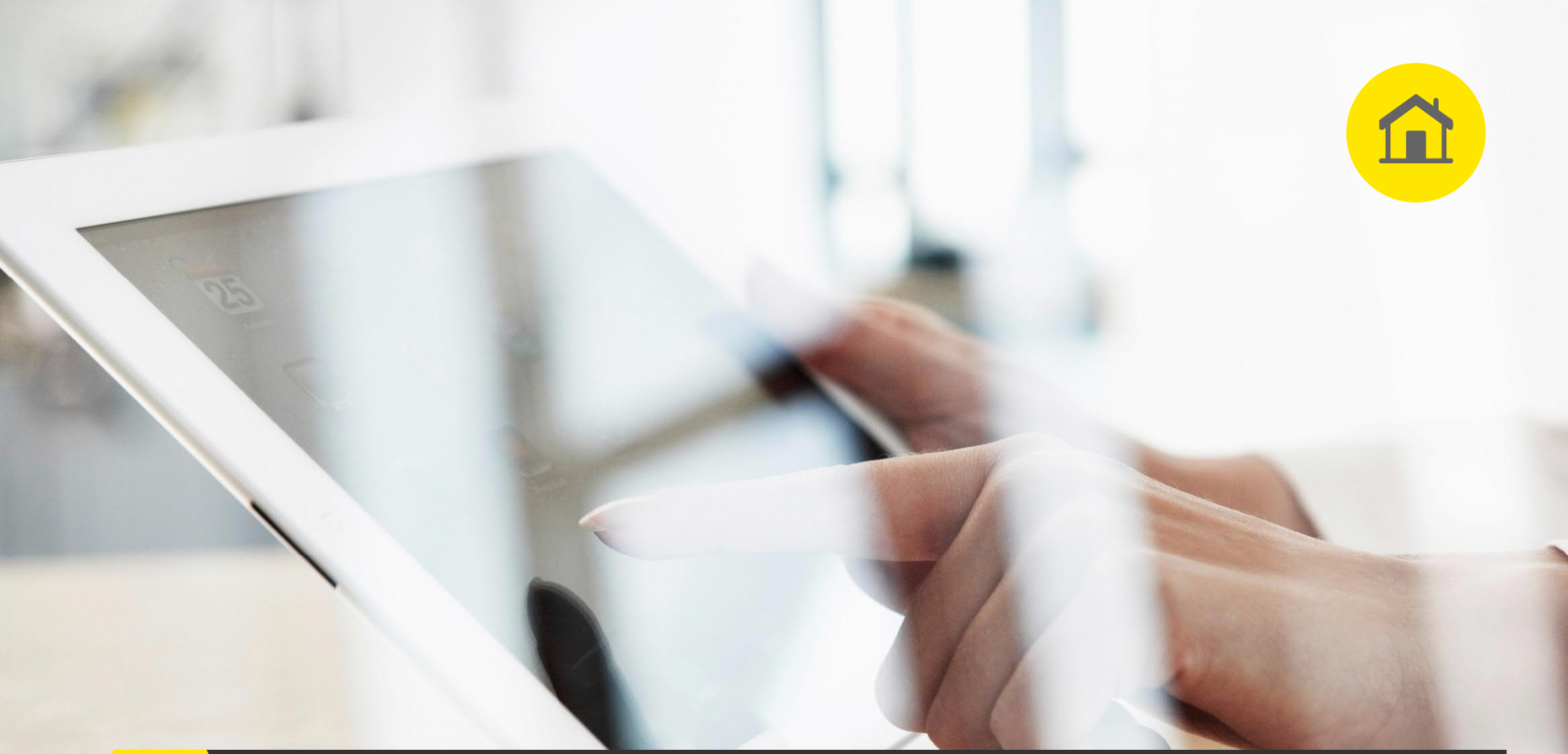
Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

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 carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: In our Joint Independent Audit Committee Planning Report, we communicated a range within which our materiality levels were likely to fall, because at the time, our planning was not yet complete. Our audit procedures have been performed using a materiality of £1.9m for the PCC Group; £0.6m for the PCC Single Entity; £1.5m for the CC Single Entity; and £0.4m for the Police Pension Fund, performance materiality, at 50% of overall materiality and thresholds for reporting misstatements at 5% of materiality.
- Given the complexity of the Police Pension Scheme, we have engaged EY Pension specialists to review the Pension Fund Actuaries calculations for the McCloud/Sargant adjustment, specifically in resect of the Police Pension Scheme.
- A prior period adjustment has been posted in the PCC and CC financial statements recognising the fact that in previous years a contract change occurred which meant that henceforth contract costs were recorded in the PCC accounts. Local Government pensions costs relating to G4S members should also have moved over to the PCC at that time but did not. Therefore in the period since the contract change, pension costs had been overstated in the CC accounts, and understated in the PCC accounts (no impact on the group). Prior period adjustments are by definition the correction of errors which are material to the reader of the accounts. We have consulted with our internal audit technical team with respect to the prior period adjustment.

In the spring of 2019 it became clear that EY, as a firm, were experiencing severe resource constraints which meant we felt unable to commit to delivering the high quality audits which we and all stakeholders expect, by the 31 July 2019. We had an open discussion with management at that time and an agreement was reached to reschedule the audit until later in the year. Subsequent to that decision being taken, the resourcing and related issues only increased. The volume of new audits to be undertaken, the variety and extent of issues to be dealt with, and pressure on staff recruitment and retention all playing a part in the audit becoming significantly more delayed than was the original intention.

We acknowledge our inability to provide a continuous audit team through the planning, interim and execution phases of the audit, together with a level of project management and communication which did not best support your team and the transition to EY as auditor and only exacerbated the length of the delay in concluding the audit.

We engaged specialists in respect of asset valuations and pension liability valuations later than we should. In the following areas we had to amend our planned audit approach which increased our substantive audit work (and the burden on your Accounts department) significantly:

- Inability to use our data analytics tools on the payroll accounts due to data extraction/mapping issues. This meant that we performed transactional testing on payroll balances, requiring large sample sizes.
- Several balance sheet accounts (primarily receivable/payable accounts) did not have a detailed closing balance listing supporting them which could be audited. Rather, we were provided with full transaction listings for the year (opening balance plus all debits and credits to give closing balance). Receiving a breakdown of balances in this way significantly increases the amount of testing that needs to be performed as all transactions are present in the population, not just those that remain in the balance sheet at the year end date.

We are working with management to proactively and collaboratively to learn from the difficulties experienced during this initial EY audit and address these for the execution of the 2019/20 audit.

Executive Summary

Status of the audit

We have substantially completed our audit of the PCC and CC's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters set out in appendix B we expect to issue an unqualified opinion on the Group financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

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

Audit differences

We identified a small number of unadjusted audit differences in the draft financial statements of the PCC, CC and Group which management has chosen not to adjust. These are detailed in section 4 of this report. We 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. The aggregated impact of unadjusted audit differences is £138k for the Group. We agree with management's assessment that the impact is not material.

Management have also adjusted the draft financial statements for the impact of the McCloud judgement in respect of pension scheme liabilities. The adjustment is for £68million. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Police and Crime Commissioner for Lincolnshire and Chief Constable of Lincolnshire Police's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Police and Crime Commissioner for Lincolnshire (PCC) and Chief Constable (CC).

Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to bring to your attention.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Nevertheless, if, during the course of our substantive procedures we note any significant control weaknesses, we will communicate these to you. No such weaknesses have been noted.

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:

- Sustainable resource deployment: the PCC's and CC's arrangements for the achievement of savings needed over the Medium Term given the financial challenges the PCC and CC face over the next three to four years; and
- Informed decision making: The arrangements put in place to address weaknesses highlighted by the PCC and Internal Audit in respect of the payment of specific relocation expenses and recruitment processes.

We have undertaken appropriate procedures and concluded that we have no matters to include in the auditor's report about your arrangements to secure economy efficiency and effectiveness in your use of resources and anticipate issuing an unmodified opinion. Our key considerations are outlined in section 5.

Other reporting issues

We have reviewed the information presented in the Narrative Statement and the Annual Governance Statement for consistency with our knowledge of the PCC and CC. We have no matters to report as a result of this work.

The World Health Organisation declared the Coronavirus (C-19) outbreak a Public Health Emergency of International Concern on 30 January 2020. The United Kingdom was put into a state of lockdown on 23 March 2020. As the financial statements for the year ended 31 March 2019 were not authorised for issue at that date, the C-19 outbreak is considered to be a non-adjusting post balance sheet event.
In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought from management a documented and detailed consideration to support the assertion that the statements have been prepared on a going concern basis.

We expected to see updated going concern and financial viability disclosures. These disclosures should address the process taken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions (e.g. assumed duration of C19). This should also disclose where you are not yet in a position to estimate the impact. We also expect you to disclose any material uncertainties that do exist.

As noted in Appendix B – our work to review the analysis and disclosures made in respect of C19 is ongoing.

We are not reporting any matters to the National Audit Office (NAO) on the Whole of Government Accounts submission as the Authority falls below the £500million threshold for review as per the NAO's group instructions.

We have no other matters to report.

02 Areas of Audit Focus

Significant fraud risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

For the Group and PCC Single Entity, we have identified the potential for the incorrect classification of revenue spend as capital as well as revenue expenditure under statute, if material as a particular area where there is a risk of fraud or error.

What did we do?

We undertook the following procedures to address fraud risk:

- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud, specifically:
    - Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
    - Sample testing expenditure classed as REFCUS (which was nil in year), ensuring that it meets the criteria for this treatment.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Significant fraud risk

Misstatements due to fraud or error - Incorrect capitalisation of Revenue Expenditure and Revenue Expenditure Financed through Capital under Statute

What is the risk?

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

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

This could materialize as a result of capitalizing expenditure on revenue items or miss-classifying Revenue Expenditure Financed through Capital under Statute (REFCUS).

What judgements are we focused on?

Misstatements that occur in relation to this risk may impact the following significant accounts:

- PPE Additions – Valuation (£12m)
- CIES Net Cost of Services –Expenditure – Completeness (£41m)
- Note 17: Capital Expenditure and Financing – Presentation and Disclosure (£nil)

What did we do?

We undertook additional procedures to address the specific risk we have identified as follows:

- Sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Sample tested expenditure classed as REFCUS (which was nil in year), ensuring that it meets the criteria for this treatment. Understand variations in REFCUS year on year.

What are our conclusions?

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Group accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

In addition for 2018/19, the Group and PCC has changed its appointed valuer, increasing the risk of misstatement in this area

What judgements are we focused on?

The methods used by management to value its land and buildings, taking into account source documentation, valuation methods used, and assumptions applied, useful economic lives, depreciation, and how management is content that all valuations are up to date.

What did we do?

We:

- Considered the work performed by the Group and PCC valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code of Practice. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated (a full desktop valuation was performed in 2018/19 as is the Authority's policy to perform every 5 years);
- Tested that accounting entries have been correctly processed in the financial statements; and
- Make use of our valuation experts to review in detail a sample of asset valuations.

What are our conclusions?

We have considered the work of your valuers, Lambert Smith Hampton, including the adequacy of their professional qualifications and capabilities, the scope of the work they were engaged to perform and the results of their work.

For a sample of 9 specific assets, we have engaged EY Real Estate to perform a detailed review of the valuations and form a view as to whether the assumptions used and valuation methods applied are appropriate and arrive at a valuation as at 31 March 2019 which are in an acceptable range (relative to materiality).

Additionally, we verified the source data used in the valuations (floor areas etc) back to supporting evidence.

We were able to conclude that the valuations are free from material misstatement.

Other areas of audit focus – Pension Fund Liability

What is the area of focus?	What did we do?	Our Conclusions
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Lincolnshire County Council. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuaries to the Lincolnshire Pension Fund and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates	Local Government and Police Pension Schemes We have: • Liaised with the auditors of the Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority for the Local Government Pension Scheme (LGPS); • Assessed the work of the Pension Fund actuary for the two schemes (Hymans Robertson), including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. Police Pension Scheme (only) We have: • Tested a sample of commutations; • Competed a predictive analytical review for benefits payable to pensioners; and • Completed a predictive analytical review for both the pensions payroll and employees and employers pension contributions; McCloud/Sargeant, Guaranteed Minimum Pension (GMP) and estimated and actual asset values. • We have applied sensitivity analysis to the local government actuarial amendments in response to the McCloud/Sargeant judgments and considered actuarial assessments as regards GMP and the movement of pension assets; and • Given the complexity of the Police Pension Scheme Membership, we have engaged EY's Pension's to review the Pension Fund's actuaries calculations for the McCloud/Sargeant adjustment Prior period adjustment • We have reviewed the calculations of the revised apportionment of local government pension scheme liability in respect of G4S members and the associated accounting entries and disclosures.	The Authority requested a further actuarial report to account for the impact on the pension liabilities from the effect of the McCloud/ Sargeant and GMP judgements and change in asset values. We assessed the assumptions within the Authority's updated actuarial reports and reviewed the movement on the total fund asset values. Due to the complexity and scale of adjustment to the police pension scheme, we engaged the support of the EY pension advisory group. In our view, after reviewing the Actuary's calculations, we concluded that no explicit allowance had been made for: • The full impact of the salary increase assumption of CPI+1% • The membership profile underlying the scheme. And the impact was material to the size of the liability recorded in the financial statements. Management engaged the Actuary to perform a revised calculation where the above issues were addressed. The impact of these changes has been to increase the pension fund liability by £68 million. Management have amended the financial statements to reflect these increases, see Section 4 for the adjustments. Additionally, we are satisfied that the prior period adjustment posted in the PCC and CC financial statements regarding Local Government pensions costs relating to G4S members which should also moved over to the PCC at the time of the contract change, has been calculated and accounted for appropriately.

03 Audit Report

Draft audit report (Group and PCC) – subject to change arising from C-19 consultation (refer Appx. B)

Our draft opinion on the group financial statements

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE

Opinion

We have audited the financial statements of the Police and Crime Commissioner for Lincolnshire the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Police and Crime Commissioner for Lincolnshire and Group Movement in Reserves Statement;
- Police and Crime Commissioner for Lincolnshire and Group Comprehensive Income and Expenditure Statement;
- Police and Crime Commissioner for Lincolnshire and Group Balance Sheet;
- Police and Crime Commissioner for Lincolnshire and Group Cash Flow Statement;
- related notes 1 to 49; and
- Police and Crime Commissioner for Lincolnshire Police Officer Pensions – Home Office Memorandum Account and related notes 1 to 6.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Lincolnshire and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Police and Crime Commissioner for Lincolnshire and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Financial Statements set out on pages 6 to 39, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, the Police and Crime Commissioner for Lincolnshire Lincolnshire put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Draft audit report (Group and PCC), continued

Our draft opinion on the group financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the entity;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities for the Statement of Account set out on page 40, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Police and Crime Commissioner for Lincolnshire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Police and Crime Commissioner for Lincolnshire either intends to cease operations, or have no realistic alternative but to do so.

The Police and Crime Commissioner for Lincolnshire is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Police and Crime Commissioner for Lincolnshire had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner for Lincolnshire put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Police and Crime Commissioner for Lincolnshire had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner for Lincolnshire has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Police and Crime Commissioner for Lincolnshire has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Draft audit report (Group and PCC), continued

Our draft opinion on the group financial statements

Certificate

We certify that we have completed the audit of the accounts of the Police and Crime Commissioner for Lincolnshire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to Police and Crime Commissioner for Lincolnshire, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for Lincolnshire, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
Date

The maintenance and integrity of the Police and Crime Commissioner for Lincolnshire web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

As noted in section 2, on page 13, the largest adjustment to the draft financial statements posted by management is that relating to the McCloud Judgement which has increased the pension liability by £68million.

There were a small number of smaller amendments made (totalling less than performance materiality for the PCC, CC and Group) to the financial statements, as well as disclosure enhancements.

Summary of unadjusted differences

In addition we highlight on the following page, misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the PCC and CC and provided within the Letters of Representation.

Audit Differences

Summary of unadjusted differences – Police and Crime Commissioner for Lincolnshire (all figures in £'000)

Uncorrected misstatements 31 March 2019	Effect on the current period:	Balance Sheet (Decrease)/Increase				
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Reserves (Debit)/Credit
Known Misstatement						
• Over-accrual of expenditure relating to ICT	(40)			40		
• VAT income/expenditure recorded in the incorrect year (understating both income and expenditure for the year)	501 (501)					
Projected Misstatement						
• Overstatement of trade creditors*	(49)			49		

* An error was found in a representative sample of trade payables. An invoice for £840 (incl VAT) had been included in trade payables which related to the 2019/20 financial year. Since this type of error could occur in other items in the population being sampled, we extrapolated the result to arrive at a projected misstatement of £49,000.

We note that the Expenditure and Funding Analysis (EFA) is described as a primary statement rather than a note to the accounts, and recommend that this is corrected in future years.

We also note that no conclusion has been included in the Narrative Statement. This is a requirement of the Code (per AGS5 CIPFA disclosure checklist), and we recommend that this is corrected in future years.

Audit Differences

Summary of unadjusted differences – Chief Constable (all figures in £'000)

Uncorrected misstatements 31 March 2019	Effect on the current period:	Balance Sheet (Decrease)/Increase				
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Reserves (Debit)/Credit
Projected Misstatement						
• Income relating to 2017/18 recorded in the 2018/19 financial year*	138					138

* Income was tested by means of a representative sample. An error was found in respect of one particular sampled item which indicated that Lincolnshire Police's share of an underspend on the EMOPSS training budget relating to 2017/18 of £10,486 had been recorded in 2018/19. Since this type of cut-off error could apply to other items in the population being tested, we extrapolated the result over the population tested to arrive at a projected error of £138,000.

We note that the Expenditure and Funding Analysis (EFA) is described as a primary statement rather than a note to the accounts, and recommend that this is corrected in future years.

We also note that no conclusion has been included in the Narrative Statement. This is a requirement of the Code (per AGS5 CIPFA disclosure checklist), and we recommend that this is corrected in future years.

Audit Differences

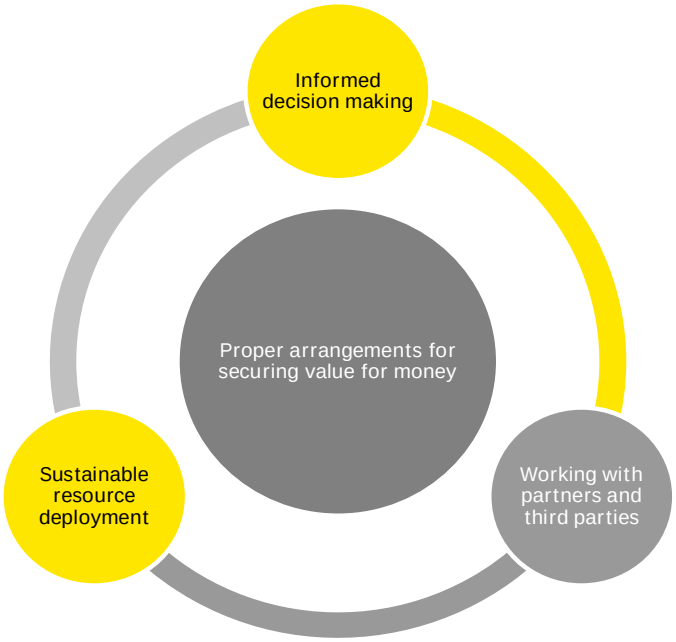
Summary of unadjusted differences – Group (all figures in £'000)

Uncorrected misstatements 31 March 2019	Effect on the current period:	Balance Sheet (Decrease)/Increase				
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Reserves (Debit)/Credit
Known Misstatement						
• VAT income/expenditure recorded in the incorrect year (understating both income and expenditure for the year)	501 (501)					
Projected Misstatement						
• Income relating to 2017/18 recorded in the 2018/19 financial year*	138					138

* Income was tested by means of a representative sample. An error was found in respect of one particular sampled item which indicated that Lincolnshire Police's share of an underspend on the EMOPSS training budget relating to 2017/18 of £10,486 had been recorded in 2018/19. Since this type of cut-off error could apply to other items in the population being tested, we extrapolated the result over the population tested to arrive at a projected error of £138,000.

05 Value for Money Risks

Value for Money



Background

We are required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources in our audit report for the year ended 31 March 2019.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

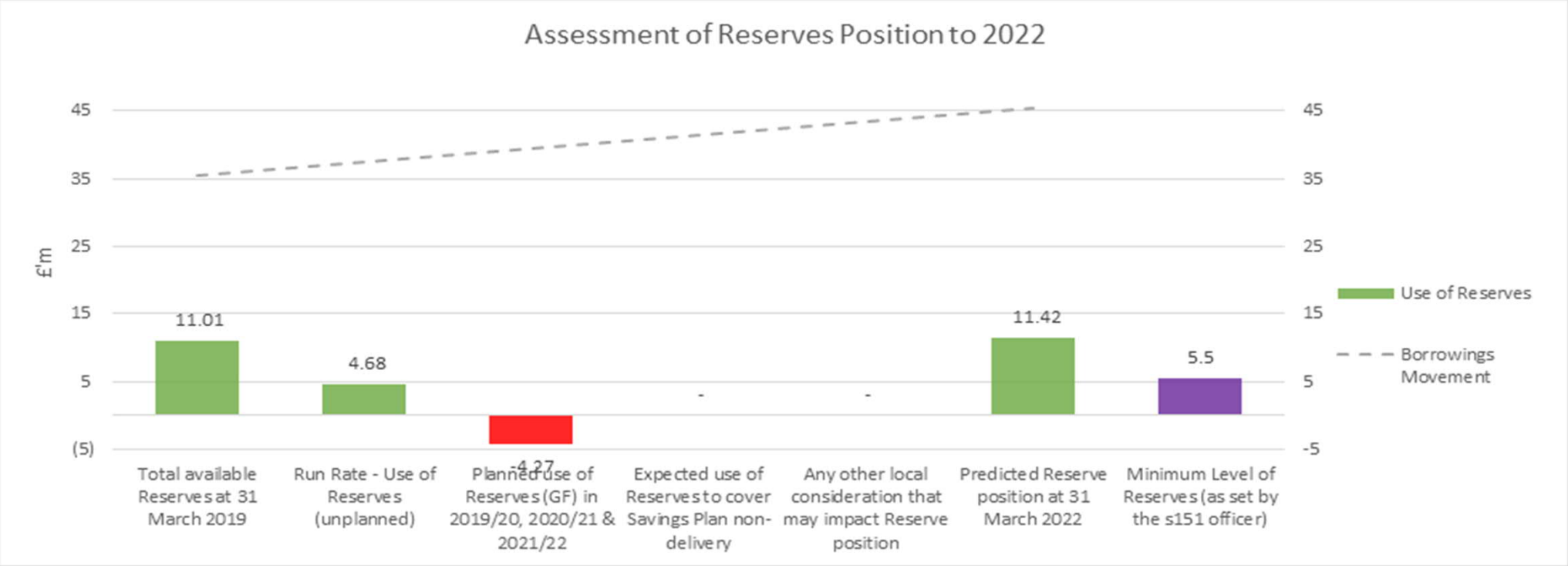
The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
At the time of our audit planning report, 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 had 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	The PCC and CC had planned for a £5.1 million overspend on its £122.3 million budget for 2018/19 with the deficit being covered by planned £5.1 million use of reserves. In the event, the PCC and CC overspent by £4 million allowing reserves to be replenished. For 2019/20 and beyond, we have evaluated the PCC's and CC's financial position as follows: The key assumptions made within the 2019/20 annual budget: The process for setting the PCC and CC's budget is sound. We concluded that the MTFP identifies the key assumptions expected to underpin the 2019/20 budget. We noted, however, that the MTFP could usefully include scenario planning to provide guidance to the public on how PCC and CC made decisions on the level of precept to set. The MTFP could also refer to uncertain events, such as Brexit, within its assumptions. An assessment of the sensitivity of those assumptions underlying the 2019/20 MTFS: Using sensitivity analysis, by considering the PCC's and CC's outcomes against planned under and overspends, past savings achieved, planned use of reserves in 2019/20 to 2021/22 and dependency on innovative income streams, we have determined that the PCC and CC should have sufficient reserves above its minimum level of set at £5.5 million. Review of Arrangements to Achieve Savings within the MTFP: Although the MTFP indicates that reserves are not being used to support the budget, the PCC and CC need to achieve savings £3.2m, £6.7m & £7.2m in 2019/20, 2020/12 and 2021/22 respectively to achieve a balanced budget.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
At the time of our audit planning report, 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 had 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	The CC has set out the detail of how the savings are going to be achieved across the three years detailing a rationale and timetable base on reductions in Police Officer, PCSO and Police Staff numbers and other non-pay initiatives. The CC reported the process to the PCC Chief Executive in early February with the involvement of the Chief Officer Team and Police and Crime Strategic Board and has followed a consultation process involving union representatives. In considering savings, the CC had also prudently considered the costs arising from staff redundancies. The CC is also taking account of external advice. Therefore, the CC has put in place reasonable arrangements to achieve the savings required. However, the PCC and CC could improve its processes through: • Producing business cases that detail the posts that are considered at risk, the opportunity cost of the impact of the redundancy will have on the workload for the relevant department and how the transition fits into the Policing Model or the Police and Crime Plan; and • A report which sets out how the PCC and CC's proposed reduction in staff numbers has been considered in the light of HMIC's PEEL requires improvement assessment for Efficiency and addresses the fall in policing operational performance in some areas highlighted in the PCC Performance reports for2018/19.

Value for Money



Our Assessment

In our assessment we considered:

- The PCC's and CC's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The PCC's and CC's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves. We noted that for both 2017/18 and 2018/19 the PC and CC had been able to contribute more to reserves as the outturn overspend was less than planned in both years;
- The PCC's and CC's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- The PCC's and CC's planned use of reserves both to deliver projects and to support the General Fund budget in each of the next 3 years; and
- Reliance upon any income other than grant income which has not been confirmed post 2018/19, upon which the PCC's and CC's are reliant.

The graph shows borrowing increasing over the next three years from £35.5 million to £45.3 million.

As a result of our assessment, we are satisfied that the PCC's and CC's General Fund reserve balance at the 31 March 2022 will remain above the approved minimum level of £5.5 million. We note that the balanced budget by 31 March 2022 is dependent upon delivery of savings plans outlined in the MTFP.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Work by your predecessor external auditors and Internal Audit had highlighted a number of staff appointments and payments which had not followed recruitment and financial procedures. Whilst the amounts were not material, these may indicate a wider potential risk around governance and control	Take informed decisions	Payment of Relocation Expenses In their 2017/18 ISA260 report, KPMG drew attention to an item of expenditure amounting to £14,579 to a member of the CC's chief officer team recorded in the 2017/18 financial statements of which the PCC and CC Chief Finance Officers had previously been unaware. The sum concerned temporary rental allowance payments where a chief officer does not wish to locate their home permanently. We have reviewed the correspondence between the PCC and CC, the legal advice undertaken, and representations made to the Home Office. We note that legal advice and the Home Office considered there was no provision in Police Regulations for the payments to be made but that the Home Secretary in Mach 2019 exercised discretion to allow the payments to be made. From our review of processes, we consider that at the time of the initial decision, the Force did not follow expected governance procedures in checking Home Office regulations, demonstrating how value for money would be achieved, consulting with key staff and documenting the decision. However, we note that PCC acted appropriately in seeking legal advice and contacting the Home Office. We also note that the CC ceased payments and took steps to recover the payments made once presented with the legal guidance. We also note that the CC exercised the right to seek authorisation from the Home Secretary for approval of the payment. In addition, management followed appropriate arrangements by consulting HMRC and external advisors during 2019/20 to consider the implications for the tax liability on the payment. The PCC and CC have made the payments in an open and transparent manner recording the payments within the Remuneration Report.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Work by your predecessor external auditors and Internal Audit had highlighted a number of staff appointments and payments which had not followed recruitment and financial procedures. Whilst the amounts were not material, these may indicate a wider potential risk around governance and control	Take informed decisions	Recruitment and Retention In October 2018, Internal Audit reported their findings from a Recruitment and Reward audit concluding that: • In 3 out of 20 cases tested procedures recruitment procedures were not followed with individuals directly approached and offered the role without an open and effective application and selection process. We note that Force considers that the decision was made given the significant staffing uncertainty arising from many unanticipated departures at the time; • The one ex-gratia payment made in 2017/18 breached financial procedure rules; and • One bonus payment out of ten tested was made that was not in line with the bonus scheme. A follow up Internal Audit report in June 2019 found that recommendations had been partially implemented but noted that the Force, in particular, had: • Not produced a template to enable adherence to authorisation levels for ex-gratia payments; and • Continued to make bonus payment although the payment was in breach of regulations We are informed that the first of these recommendations has now been dealt with. Conclusion There are serious weaknesses evident within the Force's procedures for decision making for relocation expenses and recruiting staff and for the payments of ex-gratia and bonuses. However, we have considered the number of significant findings in relation to the number of transactions tested, actions taken by the PCC and Force to address weaknesses once they have been found and the degree to which the Force and CC has implemented Internal Audit recommendations. Therefore, we have decided not to qualify the VFM Conclusion. However, the PCC and CC need in future to ensure that recruitment and reward decisions are made in line with Home Office regulations and internal procedures and by consulting with appropriate colleagues, taking external advice where warranted and documenting decisions made.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Financial Statements 2018/19 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Financial Statements 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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 not reporting any matters to the National Audit Office (NAO) on the Whole of Government Accounts submission as the Authority falls below the £500million threshold for review as per the NAO's group instructions.

We have no other matters to report.

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 (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

This audit results report includes all matters arising from our audit which we consider should be reported to you.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the PCC and CC to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the PCC and CC have put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

08 Data Analytics

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the PCC and CC audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Journal Entry Testing

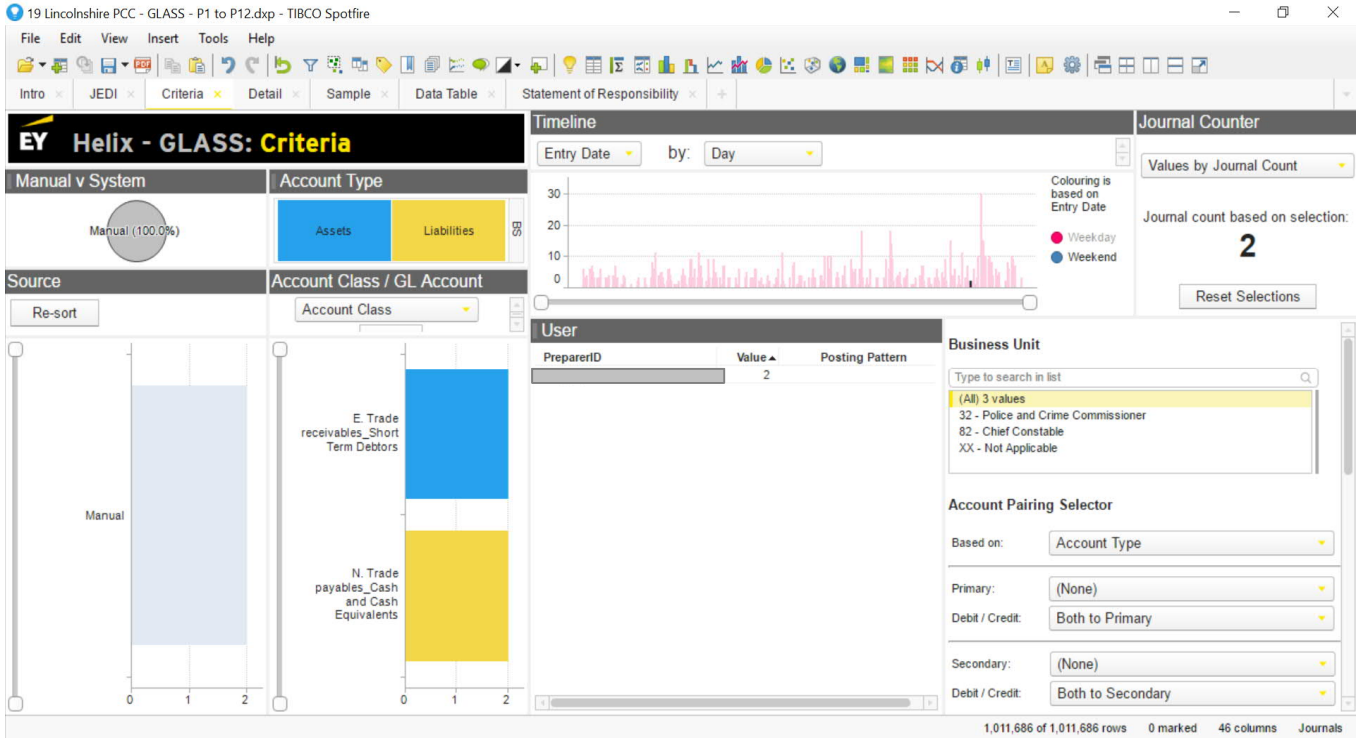
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – Journals posted on weekend dates



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The screen shot to the left shows an analysis of journals posted at the weekend.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

09 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 10 June 2020.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), the PCC and CC, their directors and senior management and affiliates, including all services provided by us and our network to the PCC and CC, their directors and senior management and affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services have been provided on a contingent fee basis.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19
	£	£	£
Total Audit Fee – PCC Code work	*	22,554	22,554
Total Audit Fee – CC Code work	*	11,550	11,550
Total non-audit services	Nil	Nil	Nil

* The final fee for 2018/19 will be subject to additional fees for the work carried out in response to significant risks and change of scope, specifically the work identified in this report covering:

- Additional pensions procedures as a result of the McCloud and GMP judgements, and the engagement of EY Pensions;
- Prior period adjustment in respect of the LGPS;
- Use of 50% performance materiality;
- The engagement of EY Real Estate to assess the calculation of assets and challenge the Authority's valuer in respect of assumptions used;
- The VFM significant risks identified; and
- Additional procedures required in respect of post balance sheet events.

We will discuss these fees with management in the first instance, before agreeing them with you and requesting approval from Public Sector Audit Appointments (PSAA).

10 Appendices

Appendix A

Required communications with the PCC and CC

There are certain communications that we must provide to the PCC and CC. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report January 2019
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits	Audit results report May 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the PCC/CC's ability to continue for the 12 months from the date of our report.
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report May 2020
Subsequent events	• Enquiry of the Joint Independent Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	JIAC meeting 10 June 2020
Fraud	• Enquiries of the PCC, CC and Joint Independent Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the PCC and CC • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the PCC and CC, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to PCC, CC & Joint Independent Audit Committee responsibility.	Audit results report May 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the PCC's and CC's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the PCC or CC	Audit results report May 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report January 2019 And Audit results report May 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the PCC, CC and Joint Independent Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Independent Audit Committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report May 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report January 2019 And Audit results report May 2020
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report May 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report May 2020
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report May 2020
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report January 2019 And Audit results report May 2020

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Going Concern Assessment (updated for C-19) The Code of Practice for Local Authority accounting 2018/19 presume that organisations operate as a going concern until Central Government discontinues the services. There is a statutory prescription that operational services will continue to be provided for the foreseeable future. That presumption has not changed in light of C19. The Code para 2.1.2.6 states that local authority financial statements shall be prepared on a going concern basis. The Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 – Audit of financial statements of public sector bodies in the United Kingdom still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting in the auditor's report. In particular where there is insufficient assurance from the entity's representations, stress testing, modelling and forecasting or the lack of third-party confirmations and guarantees. Please note that the auditor's report in respect of going concern covers a 12-month period from the date of the report. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, as a starting point we are seeking a documented and detailed consideration to support your assertion that the statements have been prepared on a going concern basis. We expect (under IAS1) to see updated going concern and financial viability disclosures. These disclosures should address the process you have taken to date for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions (e.g. assumed duration of C19). This should also disclose where you are not yet in a position to estimate the impact. We also expect you to disclose any material uncertainties that do exist.	Management to provide a detailed going concern analysis covering the 12 month period from the date of approval of the financial statements. EY to review the going concern analysis and conclude internal consultation process required in advance of issuing the audit opinion (which may contain an emphasis of matter in respect of going concern).	EY and management
Subsequent events review (including disclosures in relation to C-19)	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Management representation letter	Receipt of signed management representation letter	Management and Joint Independent Audit Committee

Appendix C

Management representation letter

Draft Management representation letter for the Chief Constable (a separate, similar, representation letter will be required for the PCC/Group)

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Mr Neil Harris
Ernst & Young LLP
400 Capability Green
Luton LU1 3LU

Dear Neil,

This letter of representations is provided in connection with your audit of the financial statements of the Chief Constable for Lincolnshire Police ("the CC") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Chief Constable for Lincolnshire Police as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the CC's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as those charged with governance and members of management of the CC, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the CC in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As those charged with governance and members of management of the CC, we believe that the CC has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the CC's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the CC (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the CC's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the CC's activities, its ability to continue to operate, or to avoid material penalties;

Management representation letter (continued)

Management Rep Letter

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the CC and committees, including the Joint Audit Committee, (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 27 January 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the CC's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the CC has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

E. Subsequent Events

1. Other than..... described in Note [X] to the financial statements, there have been no events [including events related to the COVID-19 pandemic] subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. We are not aware of any matters that are relevant to the CC's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

I. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and objectivity of the specialists.

Management representation letter (continued)

Management Rep Letter

K. Estimates (pensions valuation)

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of the pension liability appropriately reflects our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the CC financial statements due to subsequent events.

L. Retirement Benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

_____

Chief Finance Officer

_____

Chief Constable

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