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

## DRAFT Annual Audit Letter for the year ended 31 March 2019

May 2020

Building a better working world

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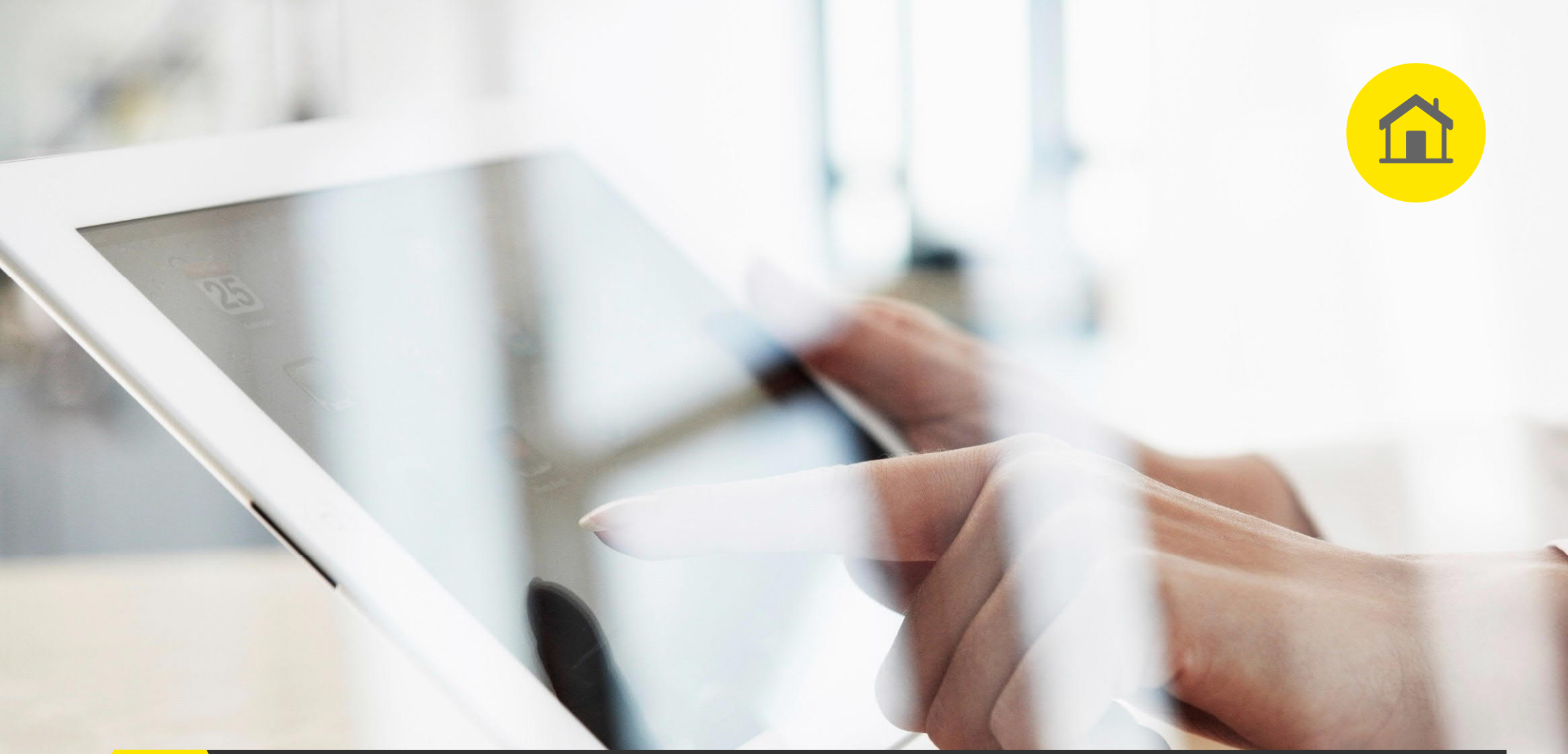
Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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 set 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. 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

We are required to issue an annual audit letter to the Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire Police (the Group, PCC and CC) following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

| Area of Work | Conclusion |
|---|---|
| Opinion on the Group, PCC and CC's:<br>► Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Group, PCC and CC as at 31 March 2019 and of its expenditure and income for the year then ended |
| ► Consistency of other information published with the financial statements | Other information published with the financial statements was consistent with the Annual Accounts |
| Concluding on the PCC/CC's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources |

| Area of Work | Conclusion |
|---|---|
| Reports by exception: | |
| ► Consistency of Governance Statement | The Governance Statement was consistent with our understanding of the Group, PCC and CC. |
| ► Public interest report | We had no matters to report in the public interest. |
| ► Written recommendations to the PCC and/or CC, which should be copied to the Secretary of State | We had no matters to report. |
| ► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 | We had no matters to report. |

| Area of Work | Conclusion |
|---|---|
| Reporting to the National Audit Office (NAO) on our review of the PCC/CC's Whole of Government Accounts return (WGA). | We had no matters to report. |

As a result of the above we have also:

| Area of Work | Conclusion |
|---|---|
| Issued a report to those charged with governance of the PCC/CC communicating significant findings resulting from our audit. | Our Audit Results Report was issued on [xx xxxx 20XX] |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on [xx xxxx 20XX] |

We would like to take this opportunity to thank the PCC and CC's staff for their assistance during the course of our work.

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

# 02 Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Group, PCC and CC.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 10 June 2020 Joint Independent Audit Committee (JIAC), representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Group, PCC and CC.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the PCC and CC have to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Group, PCC or CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Group, PCC or CC, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Group is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# 03 Financial Statement Audit

# Financial Statement Audit

## Key Issues

The Statement of Accounts is an important tool for the Group, PCC and CC to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on xx xxxx 20XX.

Our detailed findings were reported to the 10 June 2020 Joint Independent Audit Committee.

The key issues identified as part of our audit were as follows:

| Significant Risk | Conclusion |
|---|---|
| Misstatements due to fraud or error<br><br>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.<br><br>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. | We undertook the following procedures to address fraud risk:<br><br>➢ Inquiring of management about risks of fraud and the controls put in place to address those risks.<br><br>➢ Understanding the oversight given by those charged with governance of management's processes over fraud.<br><br>➢ Considering the effectiveness of management's controls designed to address the risk of fraud.<br><br>➢ Determining an appropriate strategy to address those identified risks of fraud, specifically:<br><br>➢ 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<br><br>➢ Sample testing expenditure classed as REFCUS (which was nil in year), ensuring that it meets the criteria for this treatment.<br><br>➢ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.<br><br>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position. |

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

| Significant Risk | Conclusion |
|---|---|
| Misstatements due to fraud or error - Incorrect capitalisation of Revenue Expenditure and Revenue Expenditure Financed through Capital under Statute<br><br>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.<br><br>This could materialize as a result of capitalizing expenditure on revenue items or miss-classifying Revenue Expenditure Financed through Capital under Statute (REFCUS).<br><br>Misstatements that occur in relation to this risk may impact the following significant accounts:<br>➢ PPE Additions – Valuation (£12m)<br>➢ CIES Net Cost of Services –Expenditure – Completeness (£41m)<br>➢ Note 17: Capital Expenditure and Financing – Presentation and Disclosure (£nil) | We undertook additional procedures to address the specific risk we have identified as follows:<br>➢ 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<br>➢ 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.<br><br>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position. |
| Valuation of land and buildings<br>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.<br><br>In addition for 2018/19, the Group and PCC has changed its appointed valuer, increasing the risk of misstatement in this area | We:<br>• 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;<br>• 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);<br>• 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;<br>• 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);<br>• Tested that accounting entries have been correctly processed in the financial statements; and<br>• Make use of our valuation experts to review in detail a sample of asset valuations.<br><br>We were able to conclude that the valuations are free from material misstatement. |

# Financial Statement Audit (cont'd)

| Other Key Areas of focus | Our conclusion |
|---|---|
| Pension liability valuation<br>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.<br><br>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.<br><br>In light of the McCloud/Sargeant and Guaranteed Minimum Pension (GMP) judgements we.<br>• 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<br>• 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<br><br>Prior period adjustment<br>• 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.<br>We assessed the assumptions within the Authority's updated actuarial reports and reviewed the movement on the total fund asset values.<br>Due to the complexity and scale of adjustment to the police pension scheme, we engaged the support of the EY pension advisory group.<br>In our view, after reviewing the Actuary's calculations, we concluded that no explicit allowance had been made for:<br>• The full impact of the salary increase assumption of CPI+1%<br>• The membership profile underlying the scheme.<br>And the impact was material to the size of the liability recorded in the financial statements.<br>Management engaged the Actuary to perform a revised calculation where the above issues were addressed.<br>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.<br><br>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. |
| Impact of Covid-19 | To Be Added. |

# Financial Statement Audit (cont'd)

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item | Thresholds applied |
|---|---|
| Planning materiality and reporting thresholds | |

| | 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 |

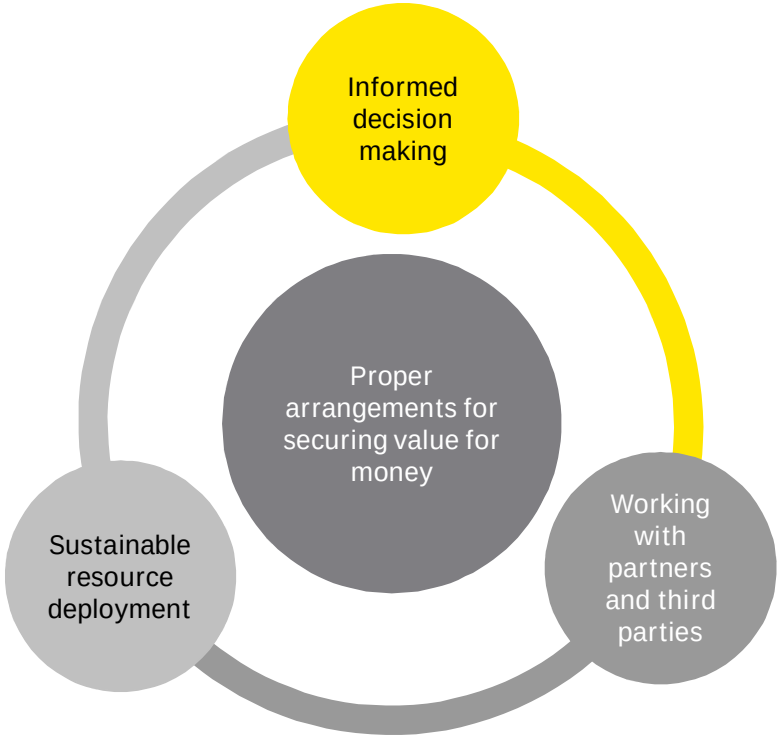
# 04 Value for Money

# Value for Money

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

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.




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.

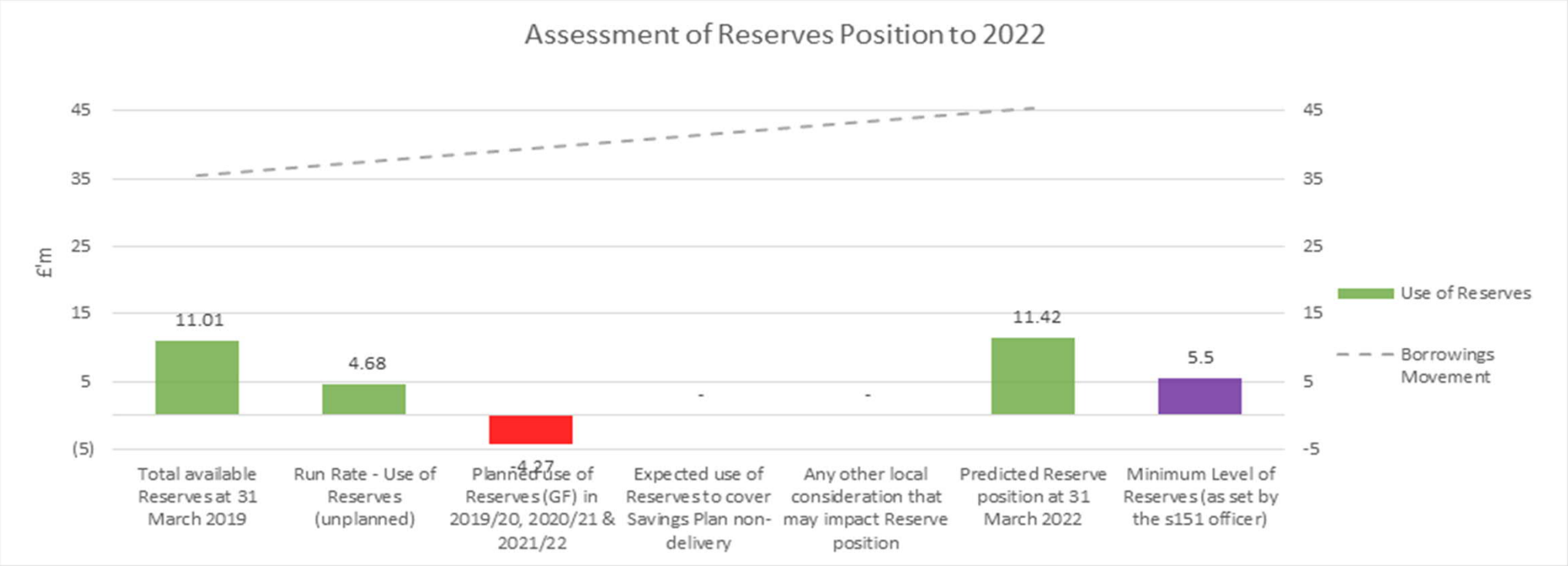
The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

| 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:<br><br>The key assumptions made within the 2019/20 annual budget:<br>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.<br><br>An assessment of the sensitivity of those assumptions underlying the 2019/20 MTFS:<br>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.<br><br>Review of Arrangements to Achieve Savings within the MTFP:<br>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.<br><br>Therefore, the CC has put in place reasonable arrangements to achieve the savings required. However, the PCC and CC could improve its processes through:<br>• 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<br>• 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<br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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<br>In October 2018, Internal Audit reported their findings from a Recruitment and Reward audit concluding that:<br>• 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;<br>• The one ex-gratia payment made in 2017/18 breached financial procedure rules; and<br>• One bonus payment out of ten tested was made that was not in line with the bonus scheme.<br><br>A follow up Internal Audit report in June 2019 found that recommendations had been partially implemented but noted that the Force, in particular, had:<br>• Not produced a template to enable adherence to authorisation levels for ex-gratia payments; and<br>• Continued to make bonus payment although the payment was in breach of regulations<br><br>We are informed that the first of these recommendations has now been dealt with.<br><br>Conclusion<br>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.<br><br>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. |

# 05 Other Reporting Issues

# Other Reporting Issues

## Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the PCC and CC for Whole of Government Accounts purposes.

The PCC and CC is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

## Annual Governance Statement

We are required to consider the completeness of disclosures in the Group, PCC and CC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

## Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC or CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

## Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC or CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

# Other Reporting Issues (cont'd)

## Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

## Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Jonit Independent Audit Committee on 10 June 2020. 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 regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

# 06 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

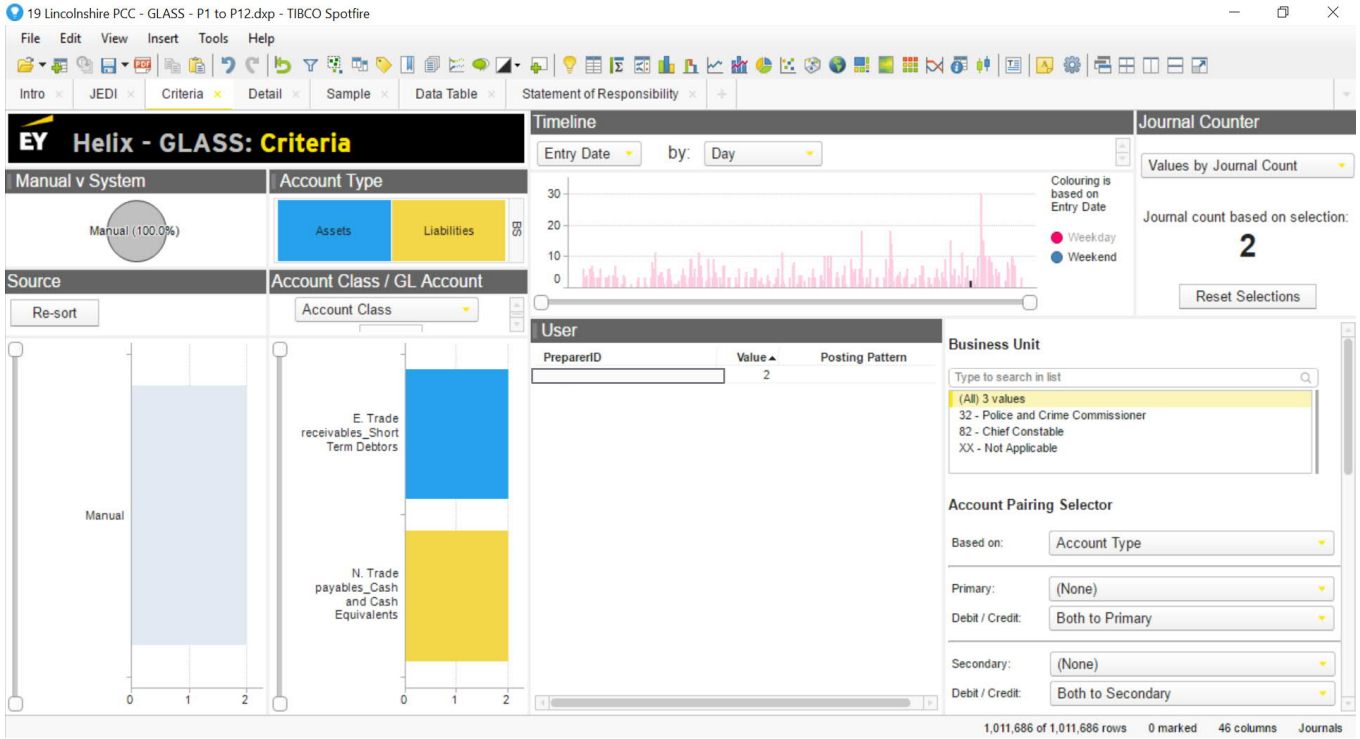
## What is the risk?

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.

# 07 Focused on your future

# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Group is summarised in the table below.

| Standard | Issue | Impact |
|---|---|---|
| IFRS 16 Leases | It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year (postponed as a result of C-19).<br><br>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.<br><br>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue. | Until the 2021/22 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.<br><br>However, what is clear is that the PCC/CC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The PCC/CC must therefore ensure that all lease arrangements are fully documented. |
| IASB Conceptual Framework | The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.<br><br>This introduces;<br><br>– new definitions of assets, liabilities, income and expenses<br>– updates for the inclusion of the recognition process and criteria and new provisions on derecognition<br>– enhanced guidance on accounting measurement bases<br>- enhanced objectives for financial reporting and the qualitative aspects of financial information.<br><br>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.<br><br>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available. | It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.<br><br>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions. |

# 08 Audit Fees

# Audit Fees

[You should include this section if the final fee was not reported in the Audit Results Report (for compliance purposes) and you may exclude the section otherwise]

Our fee for 20XX/YY is in line with the scale fee set by the PSAA / as agreed with your in our Engagement Letter and reported in our [xx xxxx 20XX] Audit Plan/Annual Results Report.

[Adapt as appropriate deleting lines and columns not needed]

| Description | Final Fee 20XX/YY<br>£ | Planned Fee 20XX/YY<br>£ | Scale Fee 20XX/YY<br>£ | Final Fee 20YY/ZZ<br>£ |
|---|---|---|---|---|
| Total Audit Fee – Code work | | | | |
| Total Audit Fee – Fee for [objections/PIR etc – remove if none] | | | | |
| Total Audit Fee | | | | |
| Non-audit work<br>– Claims and returns<br>[provide details – remove if none] | | | | |

[Add comments to explain fee variations from scale/plan]

[Note –the above text will need to be tailored to the circumstance where changes have occurred; provide a summary of relationships (including the provision of non-audit services) that bear on the EY's objectivity and independence, the threats to our independence that these create, any safeguards that have been put in place and why they address such threats.]

# Audit Fees

The final audit fee for the 2018/19 audit is subject to discussion with management on conclusion of all audit procedures.  We will upate the committee on finalisation of our work.

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ED None

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