Police & Crime Commissioner for Lincolnshire / Chief Constable for Lincolnshire

Annual Audit Letter for the year ended 31 March 2020

26 October 2022

EY

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 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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Police and Crime Commission for Lincolnshire (PCC) and Chief Constable for Lincolnshire (CC) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We updated our audit procedures to take account of the following issues:

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. However, we were unable to conclude our audit by 30 November 2020 due to a whistleblower case reported to us by management, which required additional input from management and the involvement of our forensics specialists in order to assess the impact on our audit reporting. We worked with the PCC and CC to ensure the requirements of the regulations were adhered with by way of notice with the reasons for the delay beyond the 30 November 2020.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty over the valuations in place at the 31 March 2020. Caveats around this material uncertainty were included in the year-end valuation reports produced by the PCC/CC's external valuer.
► LGPS Pension Liability Valuation	We increased our risk in this area to significant in light of the following four key trigger events which could impact on the closing valuation: Covid-19, Brexit, Triennial Valuation and McCloud.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans required revision to take account of Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the PCC/CC would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic could require disclosure or adjustment.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the PCC/CC's systems because of remote working protocols. We undertook the following to address this risk: ▸ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▸ Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements were required concerning the impact on auditor reports.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of impact	Commentary
Impact on the scope of our audit	
► Consultation requirements	Additional EY consultation requirements were required concerning the impact on auditor reports.

Opinion on the PCC and CC:

Area of Work	Conclusion
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the PCC/CC as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published within the financial statements was consistent with the financial statements.
► Concluding on the 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 PCC/CC.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the PCC/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

Executive Summary (cont'd)

As a result of the above we have also:

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.

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 the 26 August 2022.
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 8 September 2022.

The above opinions and audit certificates were issued by Neil Harris, the then Engagement Partner for the audit at that time. We would like to take this opportunity to thank the staff at Lincolnshire Police for their assistance during the course of our work.

Mark Hodgson

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to the PCC/CC 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 PCC/CC.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the Joint Audit Committee, 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 PCC/CC.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 January 2020 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 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the PCC/CC has 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 PCC/CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the PCC/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 PCC/CC is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the PCC/CC

The PCC/CC is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the PCC/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/CC is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The PCC/CC's Statement of Accounts is an important tool for the PCC/CC to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the PCC/CC's 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 the 8 September 2022. Our detailed findings were reported to 7 September 2022 Joint Audit Committee. The key issues identified as part of our audit were as follows:

Risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the PCC/CC.
Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the PCC/CC.
Valuation of Property, Plant and Equipment	We identified a number of matters in respect of the valuation of the Police Estate. The most significant of which was the understatement of Southpark/Bluelight Campus lease when brought into operational use by £4.3 million. This audit difference was corrected by Management within the authorised Statement of Accounts. We were therefor able to conclude that the Property, Plant and Equipment valuations were materially correct.
Significant risk on McCloud judgement in the valuation of defined benefit pension schemes liability	On 21 July 2020 a consultation document was released which provided further details on how benefits would be changed to remove the age discrimination. Consequently, following the conclusion of the McCloud judgement consultation, the Authority requested an update to the Actuary report to take into consideration the impact of the judgement. The revised actuary report indicated the LGPS pension liability had been understated by £0.303 million, and the police pension scheme liability had been overstated by £6.5 million. Management updated the accounts for the revised actuarial calculations. We engaged our EY Pensions Specialist to perform a review of the actuaries assumptions in respect of the McCloud judgement remedy. The total Group pension liability, was considered to be within a reasonable range after management posted the adjustments described above.
Inherent risk on overall valuation of defined benefit pension schemes liability	The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC. We liaised with the auditors of Lincolnshire Pension Fund, assessed the work of the LGPS Pension Fund and the Police Pension actuary and used our specialists' input. We have performed all our planned procedures and have no matters to report other than the McCloud impact above.
Going Concern Disclosures	The PCC/CC assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

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.

Materiality	Planning Materiality	Operating Expenditure or Assets	Audit Differences
Group	£3.824 million	Gross Operating Expenditure	£0.191 million
Chief Constable	£3.067 million	Gross Operating Expenditure	£0.153 million
Police and Crime Commissioner	£1.315 million	Gross Assets	£0.065 million
Police Pension Statement	£0.843 million	Benefits Payable	£0.042 million

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data and approved amounts.
- Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

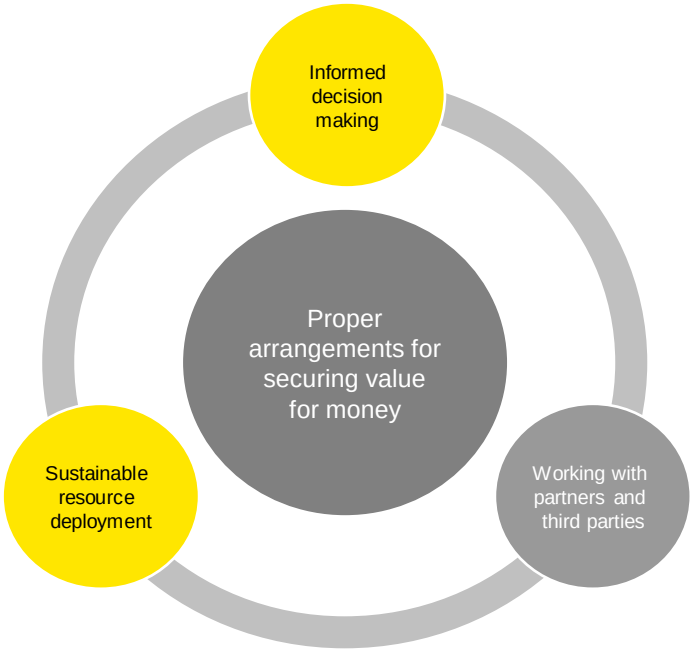
Value for Money

We are required to consider whether the PCC/CC has 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.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider the Forces' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.



We identified three significant risks in relation to these criteria:

1. The latest Medium Term Financial Plan (MTFP) showed a gap between funding and expenditure in years 2019/20-2021/22, with savings of £3.2 million, £6.7 million & £7.2 million, respectively, required to achieve a balanced budget. Savings plans have yet to be fully developed to address the gap. Given the level of the savings required this presents a risk to the PCC's and CC's financial position.
2. Work by your predecessor external auditors and Internal Audit has highlighted a number of staff appointments and payments which have not followed recruitment and financial procedures. Whilst the amounts are not material, these may indicate a wider potential risk around governance and control.
3. Management brought to our attention a procurement whistleblowing event, which had the potential to result in procurement decisions taken by the Group not aligned with the value for money requirements.

We performed the procedures outlined in our Audit Plan and as reported in detail within our Audit Results Report, which we discussed with the Joint Audit Committee on the 7 September 2022. We did not identify any significant weaknesses in the PCC/CC's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people and working with partners and other third parties.

We therefore issued an unqualified Value for Money Conclusion on 8 September 2022.

Section 5

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/CC for Whole of Government Accounts purposes. The PCC/CC both fell below the specified audit threshold of £500 million. 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 PCC/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 matters to report.

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/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/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 2019/20 financial statements from members of the public.

Other Powers and Duties

We did not identify any 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 PCC/CC/Joint Audit Committee on 7 September 2022. 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. 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 controls.

Our audit did identify three key controls areas where we bought issues to the attention of the PCC/CC or the Joint Audit Committee. The three areas were:

- Financial Management - Management response to CIPFA's Financial Management Capability Review of Lincolnshire Police;
- Procurement - Management response to Internal Audit's recommendations around procurement; and
- Payroll - Policy and processes in respect of Rest Days in Lieu balances and Accumulated Absence calculations.

These were control observation findings, they did not impact our conclusion on the overall control environment. We reported in detail against each of these three areas within our Audit Results Report, which we discussed with the Joint Audit Committee on the 7 September 2022.

Section 6

Focused on your future

Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the PCC/CC is summarised in the table below.

PCC/CC responsibilities for value for money
The PCC/CC is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal. As part of the material published with the financial statements, the PCC/CC is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the PCC/CC tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code
Under the 2020 Code we are still required to consider whether the PCC/CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PCC/CC a commentary against specified reporting criteria (see below) on the arrangements the PCC/CC has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. The specified reporting criteria are: • Financial sustainability - How the PCC/CC plans and manages its resources to ensure it can continue to deliver its services. • Governance - How the PCC/CC ensures that it makes informed decisions and properly manages its risks. • Improving economy, efficiency and effectiveness - How the PCC/CC uses information about its costs and performance to improve the way it manages and delivers its services. Continued

Focused on your future

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the PCC/CC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the PCC/CC's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Section 8

Audit Fees

Audit Fees

In the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have now quantified this fee.

Description	Final Fee 2019/20 £'s	Planned Fee 2019/20 £'s	Final Fee 2018/19 £'s
Total Audit Fee – PCC Code work (Note 1)	46,977	22,554	46,752
Total Audit Fee – CC Code work (Note 1)	24,455	11,550	28,849
Total non-audit services	Nil	Nil	Nil

Note 1: We anticipate charging an additional fee of £37,328 in 2018/19 to take into account the additional work 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;
- Use of 50% performance materiality;
- The engagement of EY Real Estate to assess the calculation of asset values and challenge the Authority's valuer in respect of assumptions used;
- The VFM significant risks identified, including our response to the Whistleblower allegation described in Section 05. The 2019/20 fee reflects our work to update the documentation in our 2019/20 file as we leveraged off 2018/19 work;
- Covid-19 impact on completion of the audit, including going concern and financial resilience assessment, re-assessment of materiality, assessment of impact on VFM arrangements;
- The increase in audit regulator's challenge of our audit processes has led to an increase in overhead costs that are spread across our audits;
- Delays in executing the lease contract for South Park and implication on auditors' time needed for follow-up and document implications; and
- Additional procedures required in respect of post balance sheet events and documentation update due to delay in signing the auditor's report.

This additional fee is split as follows:

- PCC - £24,423
- CC - £12,905

We have notified these fees to Management, before submitting them to Public Sector Audit Appointments (PSAA) for determination.

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EY-000070901-01 (UK) 07/18. CSG London.

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