

The Police & Crime
Commissioner for
Leicestershire and the Chief
Constable for Leicestershire

Audit results report

Year ended 31 March 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world



Private and Confidential

16 July 2018

Dear Joint Audit, Risk and Assurance Panel Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire for 2017/18.

We have substantially completed our audit of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire for the year ended 31 March 2018.

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 4, before the statutory deadline of 31 July 2018. 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 Audit, Risk and Assurance Panel Members, other members of the Policing Body, 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. In the first year of 'faster close' - the accelerated reporting timeframe for local government reporting, credit is due to your finance team for meeting the 31 May deadline for the production of a draft statement of accounts, and the quality and timeliness of the working papers supplied for audit.

We welcome the opportunity to discuss the contents of this report with you at the Joint Audit, Risk and Assurance Panel meeting on 24 July 2018.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money



06 Other reporting issues

07 Assessment of Control Environment

08 Data Analytics

09 Independence

10 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The 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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Joint Audit, Risk and Assurance Panel ("JARAP") and management of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the JARAP, and management of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the JARAP and management of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 20 June 2018 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 exception:

- We engaged the use of our EY valuations specialist to support our audit of the revaluation of Euston Street Police Station.
- Changes in materiality:
We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment as follows:

Entity	Basis of materiality	Final assessment			Planned assessment		
		Planning materiality	Performance materiality	Audit differences	Planning materiality	Performance materiality	Audit differences
Group	Gross revenue expenditure	£5.7m	£4.3m	£0.28m	£5.2m	£3.9m	£0.26m
PCC	Gross assets	£2.1m	£1.5m	£0.10m	£2.1m	£1.5m	£0.10m
CC	Gross revenue expenditure	£5.5m	£4.1m	£0.28m	£5.1m	£3.8m	£0.25m
Pension Fund	Benefits payable	£1.0m	£0.74m	£0.05m	£1.0m	£0.74m	£0.05m

Executive Summary

Status of the audit

We have substantially completed our audit of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Policing Body's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Receipt of bank confirmations;
- Receipt of IAS19 assurances in respect of the Leicestershire County Council Pension Fund disclosures;
- Completion of our procedures with respect to the valuation of property, plant and equipment;
- Review of the final version of the financial statements;
- Completion of final quality reviews;
- Completion of subsequent events review; and
- Receipt of the signed management representation letter.

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

Audit differences

We identified 1 unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that it be corrected or a rationale as to why it is not corrected be approved by the Joint Audit, Risk and Assurance Panel ("JARAP") and included in the Letter of Representation. The aggregated impact on the reported CIES position of the unadjusted audit differences is £nil. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact on the reported CIES position of £nil which have been adjusted by management. Details can be found in Section 4 Audit Differences.



Executive Summary

Objections

We have received no objections to the 2017/18 accounts from members of the public.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire'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 Joint Audit, Risk and Assurance Panel.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During the performance of our substantive procedures 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 and which is unknown to you.

Executive Summary

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:

What arrangements does the risk affect?	What is the significant value for money risk?	What will we do?
<p><u>Sustainable Resource Deployment</u></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p><u>Securing financial resilience</u></p> <p>The organisation continues to face significant financial challenges in the medium term. The January 2018 medium term financial plan (MTFP) shows that projected funding gap for the five years to 2022/23 is £9m.</p> <p>Whilst the MTFP highlights a balanced budget for 2018/19 and 2019/20, this is predicated upon the use of reserves and a £12.00 precept increase in both years.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the MTFP including the adequacy of the major assumptions; ▶ Understanding how the PCC has considered the impact of the Local Government settlement for 2018/19 on the MTFP; and ▶ Reviewing the arrangements that the PCC has put in place for identifying the medium term savings requirement.
<p><u>Working with partners and other third parties</u></p> <p>Working with third parties effectively to deliver strategic priorities</p>	<p><u>Blue light collaboration and integration</u></p> <p>Commissioners (PCC) and Chief Fire Officers nationally are deciding on the best way to work together in the future in response to their legal duties set out in the Policing and Crime Act 2017.</p> <p>A key decision is to whether to continue collaborating; or for the PCC to take responsibility for the governance of the Fire and Rescue Service, either through a governance or single employer model.</p> <p>Such a significant decision can only be made once all options have been explored, and the answer is supported by a business case which meets all of the Government's tests across the five key areas of; strategic, economic, commercial; financial and management.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Discussions with the PCC to understand the arrangements in place regarding understanding and addressing the requirements of the Policing and Crime Act 2017; and ▶ Understanding the decision making process for considering blue light collaboration.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources as a result of our work.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statements for consistency with our knowledge of The Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider that this risk presents itself in the year-end cut off of:

- Income from fees and charges and Local Authority contributions; and
- Other operating costs.

We consider this risk to be present in the financial statements of the PCC, the CC and the Group.

What judgements are we focused on?

We are focused on whether the income and expenditure has been recorded in the appropriate financial year. Items spanning financial year end are at greater risk of inappropriate recognition due to either deliberate manipulation of financial reporting or human error when closing down the financial statements under tight deadlines.

What did we do?

- We reviewed revenue and expenditure recognition policies.
- We performed transaction testing on a sample basis income from fees and charges and Local Authority contributions.
- We performed transaction testing on a sample basis, over material expenditure streams making up other operating costs.
- We applied cut-off procedures at year end for both revenue and expenditure transactions.

What are our conclusions?

Income from fees and charges and Local Authority contributions:

To gain assurance over the occurrence and measurement of other income we obtained a schedule of other income included within the Comprehensive Income and Expenditure statement. We then substantively tested items of income on a sample basis.

Other operating costs:

The risk centres around the completeness of operating costs in the 17-18 year.

We performed cut off testing on the balance sheet side which we extended out to the end of June 2018 (3 months after the balance sheet date).

We concluded that the financial statements are free from material misstatement with respect to the recognition of income and expenditure.

Significant risk

Management override of controls

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.

We consider that this risk manifests in:

- the completeness and valuation of year end provisions;
- The recording of transactions and balances in respect of the collaborative arrangements that the policing body enters into with other forces; and
- The inappropriate capitalisation of revenue spend.

We consider this risk to be present in the financial statements of the PCC, the CC and the Group.

What did we do?

Provisions:

We reviewed the schedule of provisions and the information provided by East Midlands Police Legal Services in support of the provisions made. We also considered the completeness of the provisions by considering our understanding of significant events which have occurred during the year from minute reviews and our meetings with management.

Collaborative arrangements:

We obtained an understanding of how the transactions for each jointly controlled operation (JCO) are identified, recorded and classified in the Leicestershire general ledger. We obtained an understanding of how JCO costs are allocated to each partner force. We tested a sample of expenditure to gain assurance that the costs related to the JCO, and were apportioned between partners in line with the s22 agreements appropriately.

Inappropriate capitalisation of revenue spend

We performed sample testing of Property, Plant and Equipment additions. All sampled items were agreed to evidence to confirm the existence of the asset and the appropriateness of the capitalisation.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the policing body's normal course of business



Areas of Audit Focus

Other areas of audit focus



Valuation of land and buildings

The fair value of Property, Plant and Equipment (PPE) 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.

Management engage a specialist valuer to value Property Plant and Equipment for inclusion in the statement of accounts. On initial review of the valuation movements we noted that one particular asset, Euston Street Police Station, had increased significantly in value – from £7m in the prior year to £10.6m at 31 March 2018 – an increase of 52%. We engaged EY valuation specialists to review the valuation. It was discovered that management’s valuer had used an incorrect floor area in performing the valuation. As a result, the valuation was revised downwards by £2.2m to a new valuation of £8.4m. We have performed procedures to satisfy ourselves that this error is limited to the valuation of Euston Street Police Station by reviewing the scale of other valuation movements, and seeking assurance from management and their valuer that validation checks have been performed on the data used across the rest of the valuations performed at 31 March 2018 and no similar errors have been made.

In reviewing the accuracy with which the valuations provided by management’s specialist had been reflected in the ledgers, we noted that despite the valuations being dated as at 31 March 2018, a full year of depreciation had been charged against the value of each asset. We confirmed with management that this has been common practice for many years and not subject to comment by previous auditors. The Code actually requires depreciation to be written out on revaluation, therefore the above practice results in the values being understated for the year. The impact for the current year was £430k which management has adjusted in the final statement of accounts. This has no impact on cash or the reported outturn for the year. We did not consider it necessary to correct any prior year balances as the amounts involved are immaterial.



Areas of Audit Focus

Other areas of audit focus



Hinckley Road Explosion

On 25 February 2018 a large explosion occurred on Hinckley Road in Leicester. The ongoing operation has resulted in significant ongoing costs for the Force. Management will need to form judgements as to the level of provisioning for costs incurred in respect of the ongoing operation to be reflected in the 31 March 2018 statement of account.

After discussion with management we were able to identify that in the 2017/18 accounts an approximate £186k had been recognised for the costs incurred in relation to the incident (much less than initially anticipated). Further costs in relation to this incident are now expected to be minimal. No reimbursement is expected from the Home Office for these unexpected costs as the final value was much smaller than anticipated.

We concur with management's assessment that the current ongoing costs will be in relation to the criminal investigation which is part of day to day policing activities and would not require the recognition of a provision.



Areas of Audit Focus

Other areas of audit focus



Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Leicestershire County Council. The PCC must also do similar in respect of the Police Pension Fund.

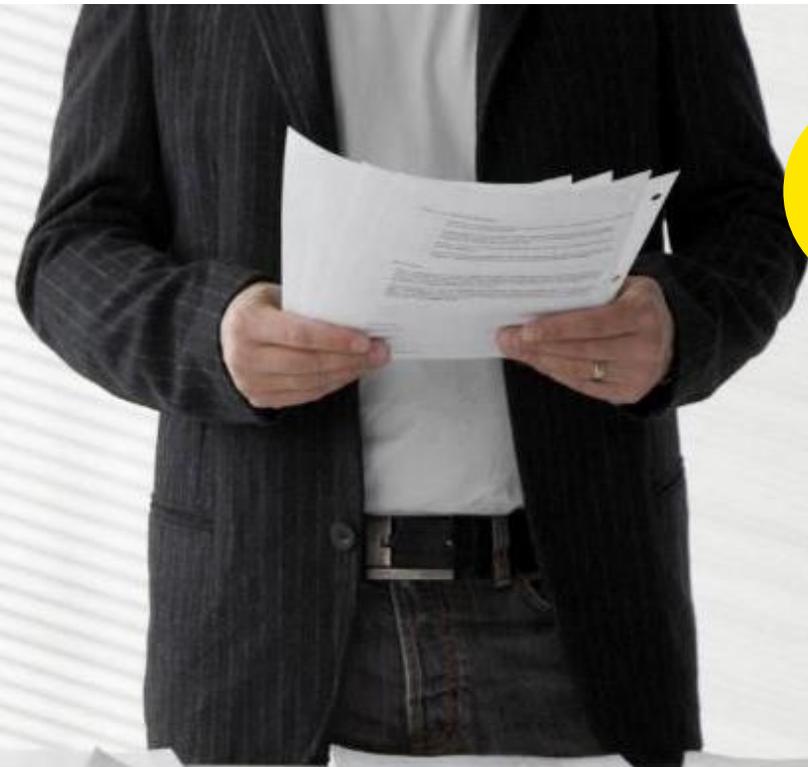
The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the County Council and also 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.

The Pension Scheme Actuary calculates the value of Leicestershire Police's share of the total scheme to be included in the financial statements. In performing our audit procedures on the notified balances we observed that there was a large difference between the asset value of the total fund which the Actuary had used in their calculations, and the asset value of the fund as disclosed in the Leicestershire County Council Pension Scheme draft financial statements as at 31 March 2018. We performed a calculation of the estimated impact that this would have on the accounts of Leicestershire Police (OCC and Group) as follows:

Actuary's estimate of total fund value	£4,058,000,000
Actual fund value per draft statement of accounts for Leicestershire County Council Pension Scheme	£4,074,900,000
Difference	£16,900,000
Leicestershire police share of difference (Calculated using the Actuary's report: Estimated individual fair value / estimated whole fund fair value).	£847,736

At the time the draft statement of accounts are prepared, Management does not have access to the financial statements of the Leicestershire Pension Fund and is therefore unable to perform the reasonableness check which has highlighted this issue.

We have included this judgemental estimation difference in our summary of misstatements at section 4 as it is of a size which warrants reporting to the JARAP. However, the misstatement does not impact cash nor the outturn for the year.



03 Audit Report



Audit Report

Draft audit report

Our DRAFT opinion on the financial statements

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

Opinion

We have audited the financial statements of the Police and Crime Commissioner for Leicestershire for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- *Police and Crime Commissioner for Leicestershire and Group Movement in Reserves Statement;*
- *Police and Crime Commissioner for Leicestershire and Group Comprehensive Income and Expenditure Statement;*
- *Police and Crime Commissioner for Leicestershire and Group Balance Sheet;*
- *Police and Crime Commissioner for Leicestershire and Group Cash Flow Statement; and*
- related notes **1 to 41**; and
- *Police and Crime Commissioner for Leicestershire Pension Fund Account Statements; and related notes **1 to 4**.*

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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Leicestershire and Group as at 31 March 2018 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 2017/18. Include only the description of the financial statements relevant to the Police and Crime Commissioners and Group's circumstances.

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 Leicestershire 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 Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Chief Finance 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 annual financial report **set out on pages**, other than the financial statements and our auditor's report thereon. The Chief Finance 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.



Audit Report

Our opinion on the financial statements

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 Leicestershire put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 set out on page 8, 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 2017/18, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Police and Crime Commissioner'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 either intends to cease operations, or have no realistic alternative but to do so.

The Police and Crime Commissioner 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.



Audit Report

Our opinion on the financial statements

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 Leicestershire ("PCC") 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 PCC put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 PCC 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 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 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.

Certificate

We certify that we have completed the audit of the accounts of the Police and Crime Commissioner for Leicestershire 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 Leicestershire, 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 Leicestershire, 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



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

There have been no misstatements greater than £4.3m (for Group) or £4.1m (for OCC) which have been corrected by management that were identified during the course of our audit.

We noted a small number of lower value misstatements and disclosure matters which management have corrected in the final statement of accounts.

As discussed on page 13, an adjustment of £2.2m has been made to the OPCC (and Group) statement of account in respect of the valuation of Euston Street Police Station.



Audit Differences

Summary of unadjusted differences

In addition we highlight the following 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 JARAP and provided within the Letter of Representation:

Understatement of Local Government Pension Scheme Asset valuation estimate (refer page 15).

Dr Pension Asset valuation £847k

Cr Pension Reserve £847k

This unadjusted difference is relevant for the OPCC and Group accounts.



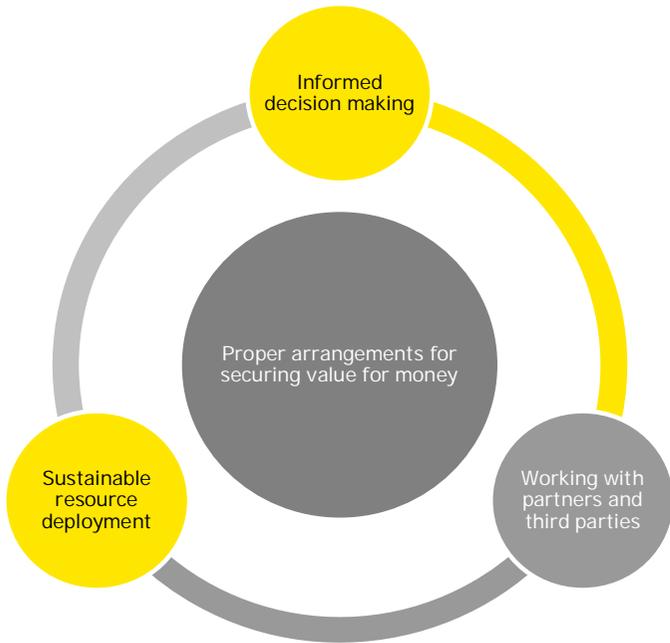
05

Value for Money Risks





Value for Money



Background

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

For 2017/18 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 2 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.

As a result of the work we have performed, we expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



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?
<p><u>Sustainable Resource Deployment</u></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p><u>Securing financial resilience</u></p> <p>The organisation continues to face significant financial challenges in the medium term. The January 2018 medium term financial plan (MTFP) shows that projected funding gap for the five years to 2022/23 is £9m.</p> <p>Whilst the MTFP highlights a balanced budget for 2018/19 and 2019/20, this is predicated upon the use of reserves and a £12.00 precept increase in both years.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> Reviewed the MTFP including the adequacy of the major assumptions; Understood how the PCC has considered the impact of the Local Government settlement for 2018/19 on the MTFP; and Reviewed the arrangements that the PCC has put in place for identifying the medium term savings requirement. <p>Based on the results of our procedures we are satisfied that appropriate arrangements are in place to address this significant risk. Further analysis is provided over the page.</p>
<p><u>Working with partners and other third parties</u></p> <p>Working with third parties effectively to deliver strategic priorities</p>	<p><u>Blue light collaboration and integration</u></p> <p>Commissioners (PCC) and Chief Fire Officers nationally are deciding on the best way to work together in the future in response to their legal duties set out in the Policing and Crime Act 2017.</p> <p>A key decision is to whether to continue collaborating; or for the PCC to take responsibility for the governance of the Fire and Rescue Service, either through a governance or single employer model.</p> <p>Such a significant decision can only be made once all options have been explored, and the answer is supported by a business case which meets all of the Government’s tests across the five key areas of; strategic, economic, commercial; financial and management.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> Held discussions with the PCC to understand the arrangements in place regarding understanding and addressing the requirements of the Policing and Crime Act 2017; and Understood the decision making process for considering blue light collaboration <p>Based on the results of our procedures we are satisfied that the PCC had appropriate arrangements in place.</p>



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 Annual Financial Report 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 Annual Financial Report 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 have no issues to raise.

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 Policing Body 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 Policing Body, 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 Policing Body’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;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

All matters on which we have information to report are included within this document.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Policing Body 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 Policing Body has 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



Use of Data Analytics in the Audit

► Data analytics – Journal entry testing and employee costs

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 2017/18, our use of these analysers in the Policing Body's audit included testing journal entries and employee expenses, 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.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

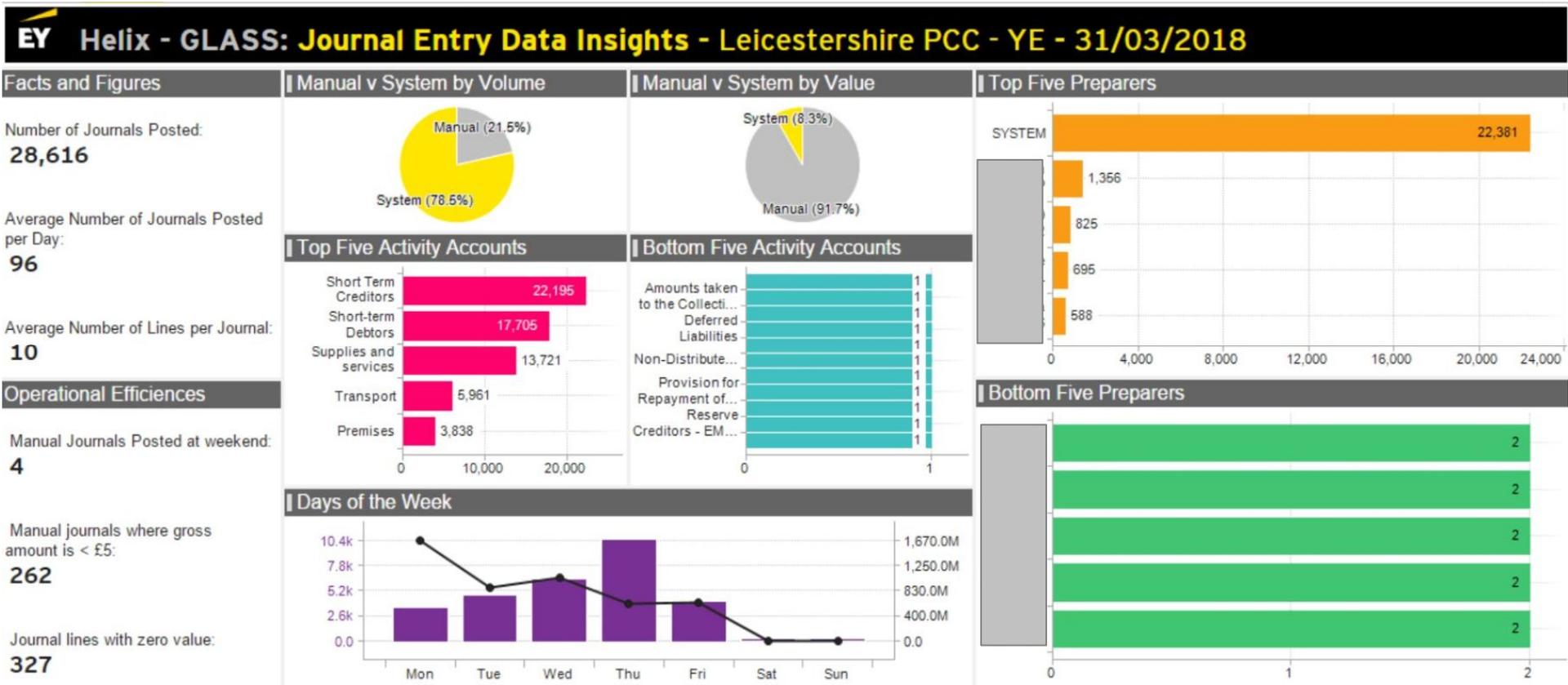


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the Policing Body's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

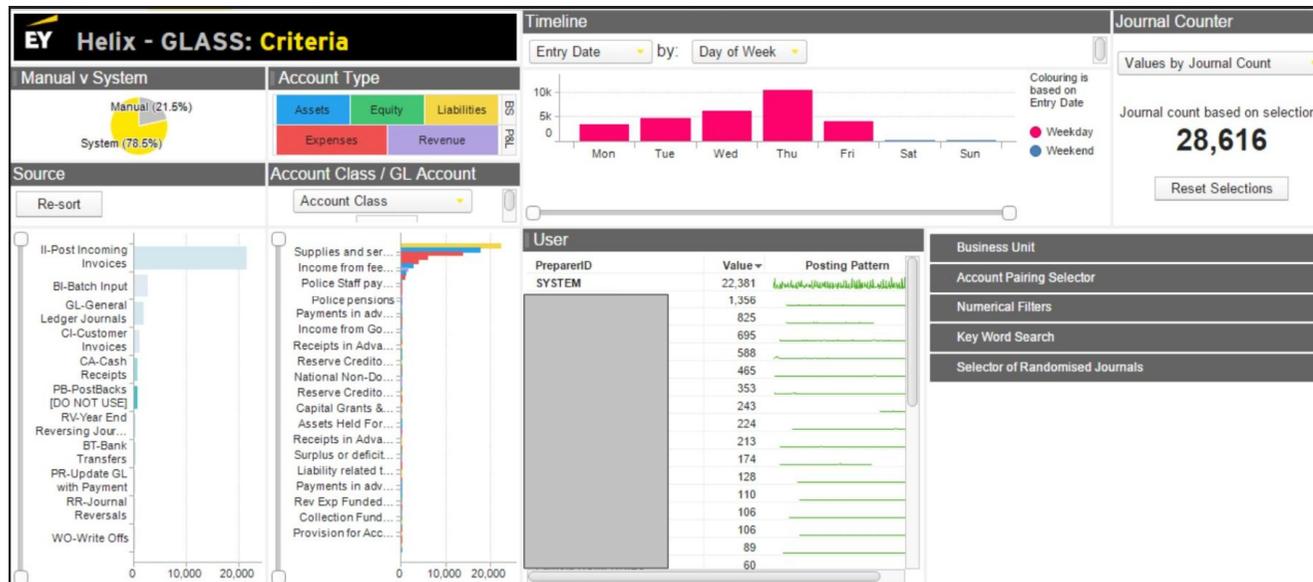
What is the risk?

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 – 31 March 2018



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.

What are our conclusions?

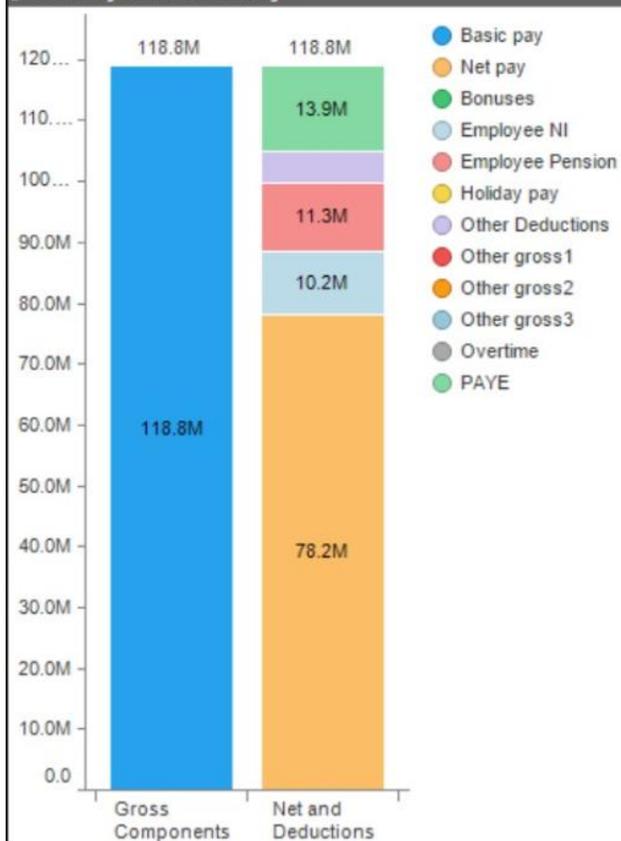
We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



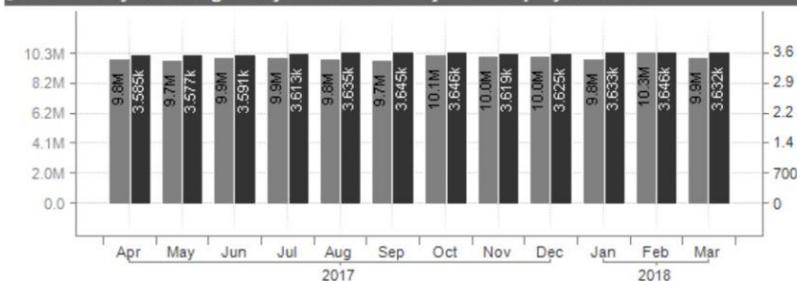
Payroll Analyser Insights

The graphic outlined below summarises the Policing Body's payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details.

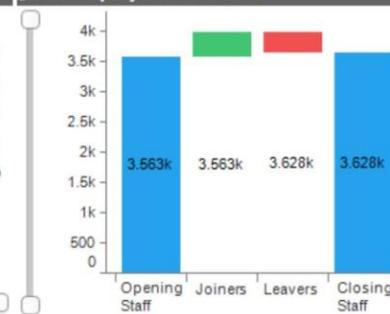
1.1 Payroll Summary



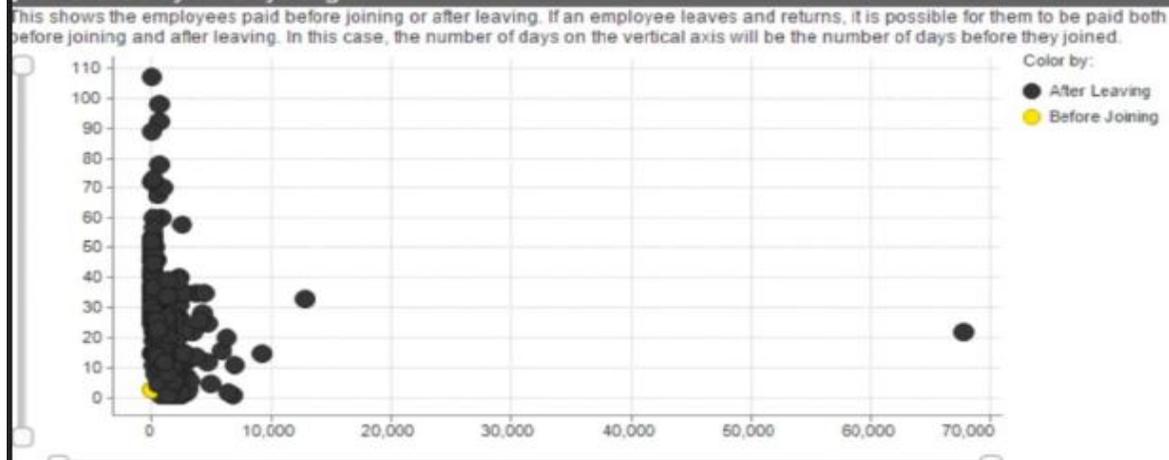
1.4 Monthly Trending Analysis of Gross Pay and Employee Count



1.5 Employee Movement



1.8.1 Gross Pay vs. Days Lag





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 30 March 2018.

We complied with the APB 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 Audit, Risk and Assurance Panel (JARAP) 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 JARAP on 24 July 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on your jointly controlled operations. We have adopted the necessary safeguards in our completion of this work.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Policing Body, and its directors and senior management and its affiliates, including all services provided by us and our network to your Policing Body, its directors and senior management and its 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 2017 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 2018 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.

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.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements in relation to your jointly controlled operations. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work (PCC)	32,430	32,430	32,430	32,430
Total Audit Fee – Code work (CC)	15,000	15,000	15,000	15,000
Non-audit work (Jointly controlled operations – CC)	TBC	5,000	X	5,000



10 Appendices

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. 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 audit committee 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 30 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 30 March 2018
Significant findings from the audit	<ul style="list-style-type: none"> • 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 	Audit results report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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 Police & Crime Commissioner for Leicestershire and the Chief Constable for Leicestershire's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • 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
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> • Enquiries of the JARAP to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Policing Body • 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 Policing Body, any identified or suspected fraud involving: <ol style="list-style-type: none"> 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 JARAP responsibility. 	Audit results report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Policing Body's related parties including, when applicable: <ul style="list-style-type: none"> • 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 Policing Body 	Audit results report
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: <ul style="list-style-type: none"> • 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 30 March 2018 and Audit results report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 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 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.

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group Audits	<ul style="list-style-type: none"> • 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. 	<p>Audit planning report 30 March 2018</p> <p>Audit results report</p>
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • 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 	<p>Audit planning report 30 March 2018</p> <p>Audit Results Report</p>

Management representation letter

Below is the representation letter for the Group and the PCC. A separate (very similar) representation letter will be required for the CC.

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 consolidated and single entity financial statements of the Office of the Police and Crime Commissioner for Leicestershire ("the Group and single entity") for the year ended 31 March 2018. 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 consolidated and single entity financial statements give a true and fair view of the Group and Single entity financial position of the Office of the Police and Crime Commissioner for Leicestershire as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and single entity, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our consolidated and single entity 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, for the Group and single entity, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Group and single entity, our responsibility for the fair presentation of the consolidated and single entity financial statements. We believe the consolidated and single entity 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 Group and single entity in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and single entity financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Single entity financial statements are appropriately described in the Group and single entity financial statements.
4. As members of management of the Group and Single entity, we believe that the Group and Single entity have 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 2017/18 for the Group and for the Single entity that are free from material misstatement, whether due to fraud or error.

Management representation letter (continued)

Management Rep Letter

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 consolidated and single entity financial statements taken as a whole.

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

1. We acknowledge that we are responsible to determine that the Group and Single entity'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 consolidated and single entity financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Single entity (regardless of the source or form and including, without limitation, 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 consolidated or Single entity'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 Group or Single entity's activities, its ability to continue to operate, or to avoid material penalties;
- 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 consolidated and single entity financial statements.
3. We have made available to you all minutes of the meetings of the Single entity, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting prior to 24 July 2018.

Management representation letter (continued)

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Single entity'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 consolidated and single entity 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 Group and Single entity has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and single entity 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 consolidated and single entity 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.
4. No other claims in connection with litigation have been or are expected to be received which have not been provided for in the financial statements of the Group and the single entity.

E. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and single entity financial statements or notes thereto.

F. Group audits

Necessary adjustments have been made to eliminate all material intra-group transactions.

G. Other information

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

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Single entity has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Single entity's assets, nor has any asset been pledged as collateral. All assets to which the Group and Single entity has satisfactory title appear in the balance sheet(s).
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no line of credit arrangements.

I. Reserves

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

Management representation letter (continued)

Management Rep Letter

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, IAS19 pension valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and single entity 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 we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

IAS 19 Actuarial assumptions and Valuation of Property, Plant and Equipment

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the financial reporting framework.
2. We confirm that the significant assumptions used in making the estimates noted above appropriately reflect our intent.
3. We confirm that the disclosures made in the consolidated and single entity financial statements with respect to the accounting estimates are complete and made in accordance with the financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and single entity 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,

Martin Henry - Chief Finance Officer

Chairman of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com