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

Annual Audit Letter for the year ended 31 March 2020

January 2021

Building a better working world

Contents

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). [OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 [OR The Terms and Conditions of our appointment contained within the Engagement Letter] 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 / Terms and Conditions of Engagement. 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 the Police and Crime Commissioner for Leicestershire (PCC) and the Chief Constable (CC) for Leicestershire 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 set out these key impacts below.

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. We worked with the PCC and CC to deliver our audit in line with the revised reporting timescale.
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. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the PCC's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the PCC and CC would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the PCC and CC's actual year end financial position and performance.
► 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 will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the PCC and CC.
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 and CC's systems. We undertook the following to address this risk: ► Used the screen sharing function of Skype 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 concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

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

Opinion on the PCC, CC and Pension Fund's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the PCC and 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	Financial information in the 2019/20 Statement of Accounts and published with the financial statements was consistent with the audited financial statements.
▶ Concluding on the PCC and CC's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	We have no matters to report on the Annual Governance Statement which was consistent with our knowledge.
▶ Public interest report	We did not identify any issues which required us to issue a report in the public interest.
▶ Written recommendations to the PCC and 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)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC and CC's Whole of Government Accounts return (WGA).	We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the PCC and CC Group falls below the £500 million threshold for review as per the NAO's group instructions.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the PCC and CC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 7 October 2020.
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 21 December 2020, at the same time as the audit opinion.

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

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Ref: EY-000092651-01

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PCC and CC. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 16 October 2020 Joint Audit, Risk and Assurance Panel, 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 and 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 10 July 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, including the Police Pension Fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the PCC and CC have to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the PCC and CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the PCC and 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 and CC are below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the PCC and CC

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

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

We audited the PCC and 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 21 December 2020.

Our detailed findings were reported to the 16 October 2020 Joint Audit, Risk and Assurance Panel.

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

Significant Risk	What we did	Conclusion
Risk of misstatement due to fraud or error (including Incorrect capitalisation of Revenue Expenditure and Revenue Expenditure Financed through Capital under Statute) (Management Override) The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	In response to this risk, we: • Identified fraud risks during the planning stages. • Inquired of management about risks of fraud and the controls put in place to address those risks. • Gained an understanding the oversight given by those charged with governance of management's processes over fraud. • Consideration of the effectiveness of management's controls designed to address the risk of fraud. • Determined an appropriate strategy to address those identified risks of fraud. • Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. Capitalisation of revenue expenditure - Our approach focussed on selecting a sample of additions in year and testing these to supporting evidence to confirm that these items were correctly accounted for as capital, in line with the accounting standards. Collaboration - We reviewed the underlying allocation of expenditure in the PCC's and CC's own accounts against agreements in place. As the same EY auditor undertook the collaboration work across all sites we have not had recourse to write separately to auditors as regards significant streams of expenditure not controlled by Leicestershire	• We obtained the responses we requested from management and those charged with governance and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, counter fraud and risk management, were in place. • Our walkthrough testing included considering what controls are in place to address significant risks. We confirmed that these controls were in place, although our approach was not to rely on controls. • 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 have not identified any material misstatements from the incorrect capitalisation of expenditure items. • Our work on collaborative arrangements in respect of the allocation of income and expenditure has not identified any material errors.

Key Issues (continued)

Significant Risk	What we did	Conclusion
Valuation of Land and Buildings The fair value of Property, Plant and Equipment including assets held for sale, 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. This has been assessed as a significant risk in this financial year due to the use of new external valuers being used. Therefore there is a greater chance that valuations of assets may vary significantly from their previous valuations due to potential changes in methodology and therefore this has given rise to us classing this as a significant risk for 2019/20.	In response to this risk, we: ‣ Considered the work performed by the PCC's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ‣ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ‣ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the value; ‣ Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ‣ Considered the circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; ‣ Considered changes to useful economic lives as a result of the most recent valuation; ‣ Tested that accounting entries have been correctly processed in the financial statements; ‣ Engaged with our internal PPE specialists in order to ensure that the methodology used by the valuer is deemed to be appropriate in order to ensure that there are no material misstatements; ‣ Used our internal PPE specialists to test PPE valuation assumptions for specific assets; and ‣ Considered how the valuer addressed the impact of Covid-19 in the year-end valuation of assets and assessment of impairments.	‣ We found the PCC's external valuer Lambert Smith Hampton to be appropriately qualified with the relevant skills to perform the valuation analysis. ‣ We engaged EYRE to review a sample of assets and found that the valuation was undertaken in accordance with relevant financial reporting guidance, and the key assumptions used in the valuation were appropriate and within an acceptable range. ‣ We concluded the Land and buildings disclosures have been included appropriately in the accounts.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Pension Liability Valuation	‣ Our work has not identified any material misstatements of the Authority's liability or related disclosures in this regard. ‣ We have assessed and are satisfied with the competency and objectivity of the PCC and CC's actuaries: Hymans Robertson LLP and Mercers ‣ EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. ‣ Our review of accounting entries at period end and those journals made in processing estimate did not reveal any instances of management intention to misreport the financial position.
Going Concern Compliance with ISA 570	We note the Authority has updated their financial plans for 2020/21 and refreshed the medium term financial plan, as a result of Covid-19, see section 4 for further details. The Authority has provided EY with the going concern assessment, and concluded the PCC/CC has appropriate level of reserves and access to funds, over the 12 month period from the audit report. The PCC/CC updated the going concern disclosures, to disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19, actual year end financial position and performance. EY consultation requirements concluded the disclosures were appropriate and there was no impact to the audit report. Given the significance of the pandemic we acknowledge that the PCC/CC faces some finance challenges due to COVID-19, however we do concur with management assessment there is headroom within the general fund to absorb the estimated financial impact of the outbreak in the short to medium term.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	

		Final assessment			Planned assessment		
Entity	Basis of materiality	Planning materiality	Performance materiality	Audit differences	Planning materiality	Performance materiality	Audit differences
Group	Gross revenue expenditure	6.04 million	4.53 million	£0.30 million	5.49 million	4.12 million	£0.275 million
PCC	Gross assets	2.01 million	1.51 million	£0.1 million	2.21 million	1.66 million	£0.11 million
CC	Gross revenue expenditure	5.87 million	4.4 million	£0.29 million	5.36 million	4.02 million	£0.27 million
Pension Fund	Benefits payable	1.13 million	0.85 million	£0.06 million	1.13 million	0.85 million	£0.056 million

Reporting threshold	We agreed with the Joint Audit, Risk and Assurance Panel that we would report to the Panel all audit differences as per the final assessment - audit differences column above.

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

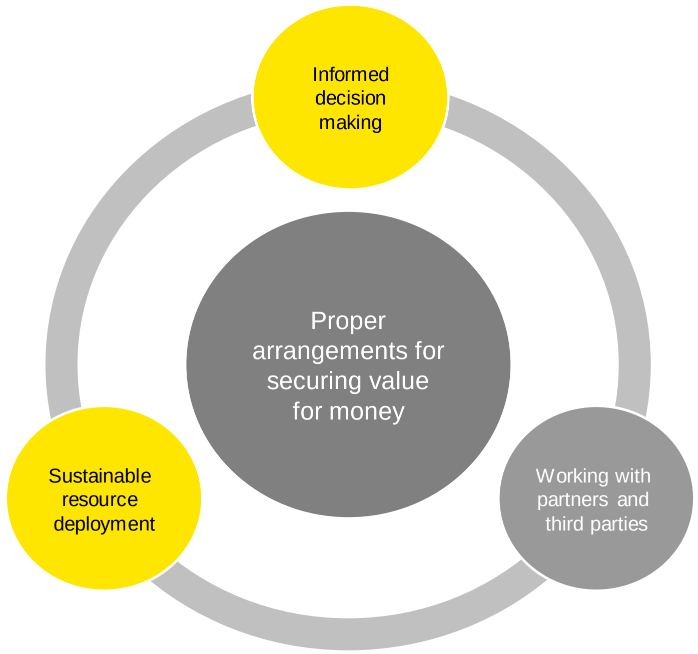
Value for Money

We are required to consider whether the PCC and 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 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.



At the early planning stage of the audit we identified one significant risk regarding the PCC and CCs financial resilience. We obtained further information from the PCC and CCs financial team on the assumptions set out in the medium term financial strategy and completed a qualitative and quantitative assessment of the PCCs and CCs financial resilience. This did not highlight any further significant concerns and as a result we determined at the execution phase of the audit that the risk on the PCC and CCs financial resilience was no longer a significant audit risk.

We have undertaken appropriate procedures and concluded that we have no matters to include in the auditor's report about your arrangements to secure economy efficiency and effectiveness in your use of resources and have issued an unmodified opinion.

Our findings are in the table below.

Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 21 December 2020.

Significant Risk	Conclusion
Securing financial resilience The PCC and CC continues to face significant financial challenges in the medium term. The February 2020 medium term financial plan (MTFP) shows that there is a projected funding gap from 2020/21 to 2024/25. These include expected funding gaps of £7.1m in 2023/24 and £10.0m in 2024/25. The entity plan to balance the budget for 2021/22 and 2022/23 by using £9.6m of the Budget Equalisation Reserve. This is predicated upon an assumed £10 precept increase and a prudent use of reserves throughout the first three years of the plan. Additionally, it is currently unknown as to what the full impact of the COVID-19 pandemic will be on the entity and in particular what financial impact this will have on the entity, therefore this uncertainty will have to be considered in our work performed in considering the reasonableness of the MTFP. It will not be possible to obtain a complete understanding of the full effect of COVID-19 at this planning stage of the audit however we consider it to be a factor for uncertainty and risk that may affect the MTFP's forecasting.	We have reviewed the arrangements in place at the PCC and CC, and plans in place to address the shortfall identified, and note: ‣ The PCC and CC has a good track record of budget monitoring, the 2019/20 performance of a managed underspend of £2.4m on a budget of £187.1m demonstrates effective budgeting and performance monitoring which gives us a level of assurance that the PCC and CC is both realistic in its budgeting and has tight control on its finances ‣ A balanced budget has been set for the 2020/21 financial year which included £1.8m to be transferred to the Budget Equalisation Reserve ‣ The February 2020 medium term financial plan (MTFP) has been updated and shows that there is a projected funding gap from 2020/21 to 2024/25. These include expected funding gaps of £5.4m in 2023/24 and £11.3m in 2024/25. The entity plan to balance the budget for 2021/22 and 2022/23 by using £12.7m of the Budget Equalisation Reserve, whilst still maintaining useable reserves above minimum set by the CFO of £5m. ‣ The financial challenges for local government organisations are increasing and the PCC and CC has a good understanding of the risks it faces, and considered plans to address them, is important that the PCC ensures future savings plans are delivered in full to strengthen its underlying financial position We conclude that the arrangements to secure financial resilience has no impact on our VFM conclusion.

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 and CC for Whole of Government Accounts purposes.

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

Annual Governance Statement

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

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC and 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 and 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 identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report in our audit planning report dated 10 July 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Section 6

Audit Fees

Audit Fees

In our Annual Planning Report and Audit Results Report we highlighted that we would plan to and did carry out additional work to complete the audit and would seek to agree an additional fee with the PCC and CC Chief Financial Officer. In the table below we summarise our current position on fees and the next steps.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £
Total PCC Fee – Code work	TBC - Note 1	£51,121	£24,971
Total CC Fee – Code work	TBC - Note 1	£23,646	£11,550
Scale fee variation	Note 2	£44,246	
Total fees	£36,521	£80,767	£36,521

Note 1: At the planning stage we highlighted factors such as risk, complexity, professional and regulatory context which impacted the scale fee and our view that the baseline fee needed to be revisited. We set out our view in the audit planning report that a sustainable audit fee to deliver a high quality audit would be £80,767, an increase of £44,246. We have discussed this with the PCC and CC CFO and presented this to the July meeting of the JARAP. The PCC and CC CFO does not agree with our assessment. We have provided PSAA with a summary of the baseline fees which we have reassessed for 2019-2020 audits onwards. Any changes to the baseline/scale fee need to be approved by PSAA.

Note 2: For the 2019-2020 audit, we have highlighted areas in our audit plan and the audit results report which have led to changes in the scope of our work. These include the change of valuer (£4,544), work required to provide assurances on disclosures for collaboration schemes across East Midlands forces (£6.009), the impact of Covid-19 on our audit procedures associated with going concern and valuation disclosures (£7,000) as well as the pensions adjustments for the restitution arrangements associated with the McCloud case(£807). The total for this out of scope work leads to a scale fee variation of £18,360. We will discuss and provide a breakdown of our scale fee variation with the CFO for PCC and CC which will be subject to PSAA review.

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