POLICE & CRIME COMMISSIONER FOR LEICESTERSHIRE
JOINT AUDIT, RISK & ASSURANCE PANEL

PAPER MARKED

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Report of	**CHIEF CONSTABLE and CHIEF FINANCE OFFICER (OPCC)**
Subject	**19-20 AUDIT PLANNING REPORT**
Date	**WEDNESDAY 29 JULY – 10.00 A.M.**
Author :	**MR NEIL HARRIS, ERNST & YOUNG**

Purpose of Report

1. For members to consider the report.

Recommendation

2. The Panel is recommended to discuss the contents of the report.

Background

3. None

Implications

Financial: none.
Legal: none.
Equality Impact Assessment: none.
Risks and Impact: as per individual reports.
Link to Police and Crime Plan: as per audit plan

List of Attachments / Appendices

External Audit Plan 1920 – July 2020

Background Papers

None

Officer to Contact

Paul Dawkins – Assistant Chief Officer (Finance & Resources): Leicestershire Police and Temporary Chief Finance Officer: Office of Police and Crime Commissioner for Leicestershire – 0116 248 2244

Police and Crime Commissioner and Chief Constable for Leicestershire Police

Audit planning report

July 2020

Building a better working world

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10 July 2020

Police and Crime Commissioner and Chief Constable
Leicestershire Police
Leicester
LE19 2BX

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the JARAP (Joint Audit Risk and Assurance Panel) with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC), and outlines our planned audit strategy in response to those risks. Our planned audit strategy and risk assessment was substantially completed prior to the unprecedented events with the COVID-19 outbreak and social distancing measures introduced in the United Kingdom from the end of March 2020. We have adapted our audit approach and working practices to take account of the implications and risks from COVID-19 as we see them for the preparers of financial statements and auditors for Local Government bodies. We have had initial discussions with the finance team on their response and ongoing strategic, operational and financial risk assessment. We will continue to keep this area under review during the course of our audit and update our audit risk assessment and approach as appropriate. At this stage, we expect to be undertaking additional audit procedures on the valuation of the assets and our assessment of management's assertions and disclosures associated with preparing the accounts as a going concern in accordance with the Financial Reporting Council's Statement of Recommended Practice Note 10 for audit of public sector bodies in the United Kingdom.

This report is intended solely for the information and use of the JARAP and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the upcoming committee meeting as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (updated April 2018)" 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 **JARAP and management of Leicestershire Police** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **JARAP, and management of Leicestershire Police** 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 Leicestershire Police** 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 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Police and Crime Commissioner (PCC) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements arising due to fraud or error	Fraud risk/ Significant risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. See slide 10 for more details on this risk.
Incorrect capitalization of revenue expenditure	Significant risk	No change in risk or focus	There is the opportunity for the entity to reduce expenditure by incorrectly capitalizing revenue expenditure which would result in the overstatement of fixed assets and the understatement of expenditure. See slide 11 for more details on this risk.
Valuation of Property, Plant and Equipment (PPE)	Significant risk	Increase in risk	Property, plant and equipment (PPE) represent a significant balance in the Group/PCC accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. This year there has been a change in external valuer used by the entity and therefore that has also resulted in a change in methodology for some assets and also a change in asset lives. See slide 12 for more details on this risk.
Incorrect recording of transaction and balances from Collaborative arrangements	Significant risk	No change in risk or focus	Leicestershire Police host a number of joint arrangements and collaborative activity with Police forces across the East Midlands. There is a risk that the recording and allocation of costs, assets and liabilities associated with this activity in the financial statements is not correctly stated. See slide 13 for more details on this risk.

Overview of our 2019/20 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Pension Liability	Inherent risk	No change in risk or focus	Extensive disclosures are required in the financial statements regarding its membership of the Local Government Pension Scheme and the Police Pension Scheme. The valuation of this liability is based on an actuarial report and on work that involves significant estimation uncertainty. In 2018/19 there was a significant adjustment to the valuation of the pension liabilities as a result of the McCloud judgement. We will consider any further developments in this case throughout the course of the audit. See slide 14 for more details on this risk.
Going Concern	Other financial statement risk	New risk for 2019/20	These are new and updated accounting standards applicable for PCC/CC accounts . There is a risk that PCC/CC do not implement the requirements of the standards correctly. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21. In particular, we will undertake sufficient and appropriate audit procedures to review the adequacy of management's disclosures, assumptions and stress testing on their assessment of going concern in response to Covid-19. Please see slide 15 for more details on this risk.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality

Materiality has been set at 2% of the relevant materiality basis as set out in the table below. We will revisit the appropriateness of this level when we receive the draft financial statements and our understanding at that stage of the implications from Covid-19 on the entity.

Performance materiality

Performance materiality has been set at 75% of materiality. We will revisit the appropriateness of this level when we receive the draft financial statements. This will take account of our assessment of the control environment for the preparation of the accounts and supporting working papers as a result of social distancing measures introduced and those which remain in force during the course of the audit in response to Covid-19.

Audit differences

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and pension fund financial statements) greater than a defined level. Other misstatements identified will be communicated to the extent that they merit the attention of the JARAP.

Entity	Basis of materiality	Planning materiality	Performance materiality	Audit differences
Group	Gross revenue expenditure (excluding non-distributed costs)	£5.49m	£4.12m	£0.275m
PCC	Gross assets	£2.21m	£1.66m	£0.11m
CC	Gross revenue expenditure (excluding non-distributed costs)	£5.36m	£4.02m	£0.27m
Pension Fund	Benefits payable	£1.13m	£0.85m	£0.056m

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the PCC (and Group) and CC for Leicestershire give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Our conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PCC's and CC's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the PCC and CC for Leicestershire audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.

Vishal Savjani – Senior Manager
Vishal is a senior manager, with significant experience in public sector audit, who is taking over managing the audit from Julie Kriek.

02 Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error	What is the risk?	What will we do?
	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.	▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Misstatements due to fraud or error - Incorrect capitalisation of Revenue Expenditure

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

PPE Additions – Valuation
CIES Net Cost of Services – Expenditure – Completeness
Note 14: Capital Expenditure and Financing – Presentation and Disclosure

What is the risk?

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

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

What will we do?

For capital expenditure incurred in 2019/20, we will undertake additional procedures to address the specific risk we have identified, which will focus around Increased sample testing additions to property, plant and equipment.

We will ensure that all additions that we randomly select for testing have been correctly classified as capital and included at the correct value in order to ensure that fixed assets are not materially overstated as a result of inappropriate capitalisation of revenue expenditure.

This will be completed by gaining reasonable assurance over the nature and value of the expenditure by gaining sufficient evidence over the transactions in order to conclude on the reasonableness of the accounting treatment of each transaction selected for testing.

Our response to significant risks (continued)

Valuation of PPE (Group, PCC)

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

Property, Plant and Equipment
Investment Property
Assets held for Sale

What is the risk?

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.

What will we do?

We will:

- Considering 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 testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering 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 consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewing assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considering the circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used;
- Considering changes to useful economic lives as a result of the most recent valuation; and
- Testing accounting entries have been correctly processed in the financial statements.
- We will engage with our internal PPE specialists in order to ensure that the methodology being used by the valuer is deemed to be appropriate in order to ensure that there are no material misstatements.
- We will use our internal PPE specialists on testing PPE valuation assumptions for specific assets depending on our risk assessment
- We will also consider how the valuer has addressed the impact of Covid19 in the year-end valuation of assets and assessment of impairments.

Audit risks

Our response to significant risks (continued)

Collaborative arrangements (PCC and CC)

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

Jointly Controlled Operations
Other Operating Expenditure
Income from fees and charges

What is the risk?

The CC participate in a number of Jointly Controlled Operations (JCO) or Collaborations with other East Midlands Forces. These are used to deliver services within the Force. The share of cost to Leicestershire is different depending on the number partaking in the JCO. There is also combination of JCO's being hosted by either Leicestershire or other forces in the East Midlands.

Given the volume of transactions being accounted for across the 5 Forces that participate across the JCO's and their value, we consider there to be a risk associated with the accuracy of the information being reported and accounted for (i.e. the measurement/valuation, completeness and presentation and disclosure of balances included in the financial statements).

What will we do?

We will:

- Review the underlying allocation of expenditure in the CC's own accounts against agreements in place.
- Consider the completeness of the reported balances within the financial statements.
- Seek assurance from the external auditors at Derbyshire Chief Constable on:
  - The processes in place to record and transact balances for other Forces.
  - Confirmation of the balances recorded and reported for Leicestershire Chief Constable.
  - How assurances have been gained that balances for each Force have been recorded completely and accurately within the finance system.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach
Pension Liability Valuation (Group, PCC, CC) The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Leicestershire County Council. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuaries to the Leicestershire Pension Fund and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. In the recent Lloyds Bank High Court case, the judge has ruled that all schemes must equalise Guaranteed Minimum Pensions ('GMP') between males and females. This case has provided clarity in an area where previously there has been uncertainty in pension's law. It is important to note that GMP equalisation is distinct from the equalisation of other elements of pension arrangements which has been dealt with by pension funds in the past. Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations and in December 2018 the Court of Appeal (McCloud/Sargeant) ruled that the 'transitional protection' offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 27 June 2019 the Supreme Court refused leave to appeal on the McCloud case. In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes potentially including both Police Pension and Local Government Scheme members. This would to lead to a material increase in Pension Scheme liabilities within the 18/19 Financial Statements.	Local Government and Police Pension Schemes We will: • Update our documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions; • Liaise with the auditors of Leicestershire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Leicestershire Police; • Review the work of the Local Government actuary (Hymans Robertson LLP) and the Police Pension actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team to ensure they are in our expected range; and • Review and test the accounting entries and disclosures made within the PCC and CC's financial statements to ensure consistency with the IAS 19 entries in both actuarial reports. • For the Guaranteed Minimum Pensions equalisation in the public sector the government have held two consultations in recent years. We expect that any reported impact will be shown as a 'past service cost' in an employer's CIES. However, the accounting treatment will be confirmed by CIPFA and we will assess how the PCC and CC has complied with any updated accounting guidance. • Review the process of quantifying the effect of equalisation by the pension fund, including from detailed and 'granular' calculations of the actuaries. Police Pension Scheme (only) We will: ‣ Test a sample of lump sums and pension payments for new Police pensioners; ‣ Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions; ‣ Assess management's arrangements to reconcile the active and pensioner membership numbers.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Going Concern Compliance with ISA 570 Covid-19 has created a number of financial pressures throughout Local Government. Dependent on the circumstances of the individual body it is creating financial stress in either or a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist. These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of: ▸ Current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; and ▸ Sensitivities and stress testing.

Other areas of audit focus (continued)

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the PCC and CC to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the PCC and CC's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- **Going concern** – management's assessment of whether the PCC and CC is a going concern will need to consider the impact of the current conditions on the PCC and CC future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- **Revenue recognition** – there may be an impact on income collection if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to COVID-19.
- **Tangible assets** – there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The PCC and CC may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- **Pensions** – volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- **Receivables** – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- **Holiday and sickness pay** – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- **Events after balance sheet date** – there is 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 needs to reflect the specific circumstances of PCC/CC.
- **Government support** – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- **Annual Governance Statement**– the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the PCC and CC's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

03 Value for Money Risks

Value for Money

Background

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

For 2019/20 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.

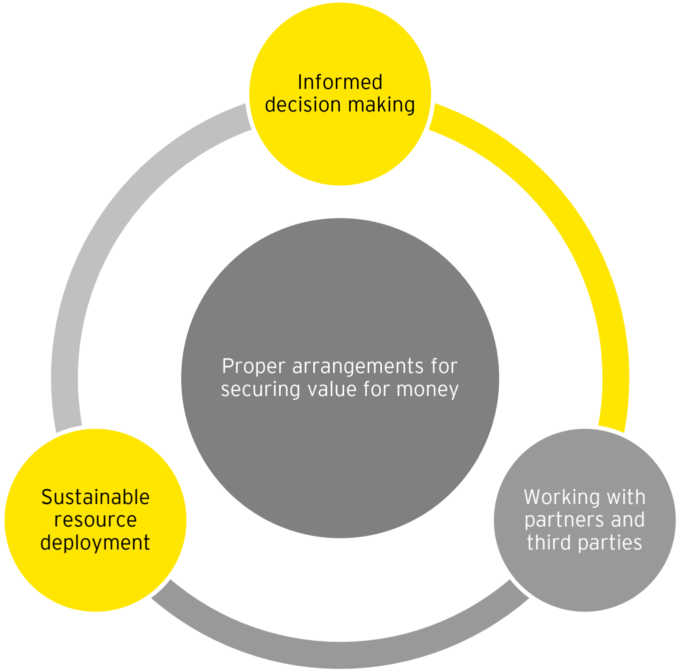
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by Leicestershire Police to consider the impact of both COVID-19 and Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that COVID-19 and Brexit and their impact may feature on operational risk registers.

Our risk assessment is ongoing and considers both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At the time of writing, this has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion. We will update the JARAP as our risk assessment process concludes.



Value for Money Risks

What arrangements does the risk affect?	What is the significant value for money risk?	What will we do?
<u>Sustainable Resource Deployment</u> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions	<u>Securing financial resilience</u> 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.	Our approach will focus on: ▶ Reviewing the MTFP including the adequacy of the major assumptions; ▶ Reviewing the arrangements that the PCC and CC has put in place for identifying the medium term savings requirement. ▶ Undertake a sensitivity analysis of past and current activity on the level of general fund and available to use reserves.

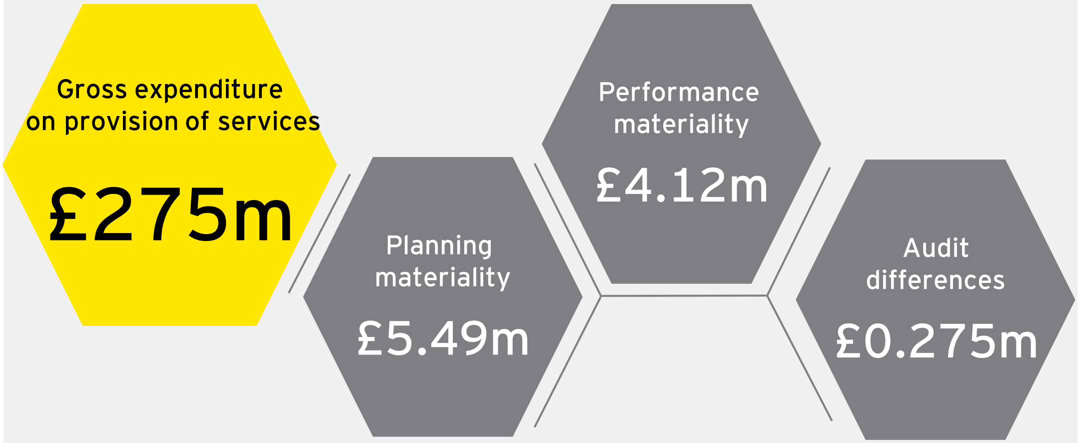
04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for the PCC, Group and CC Single Entity for 2019/20 has been set at £2.21m, £5.49m & £5.36m respectively. This represents 2% of the Group and CC Single Entity's prior year gross expenditure on provision of services (excluding non-distributed costs). Materiality for the PCC Single Entity has been set at 2% of the PCC Single Entity's prior year gross assets. Materiality for the Police Pension Fund has been set at 2% of the higher of the prior year contributions receivable/benefits payable of the Police Pension Fund. It will be reassessed throughout the audit process.

We have provided supplemental information about audit materiality in Appendix D.



We request that the PCC and CC confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality for the PCC, Group, and CC Single Entity Accounts & Police Pension Fund at £1.66m, £4.12m, £4.02m & £0.85m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and the police pension fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the JARAP, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £1.13m for the Pension Fund Account which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Specific materiality – We set specific level of materiality for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the PCC and CC's financial statements and arrangements for securing economy, efficiency and effectiveness in their use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (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 on their use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the JARAP.

Internal audit:
We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Group audit team involvement in component audits

The same audit team will work on the PCC, CC and the group accounts. We will work from the same location to audit the accounts.

06 Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists may provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Leicestershire Police's property valuer (Lambert Smith Hampton), EY Real Estates Team
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office), Hymans Robertson (LGPS Pension Fund actuary) and Mercer Management (Police Pension Fund actuary).

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC and CC's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the PCC and CC and we will discuss them with the JARAP Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	February 2020		
Walkthrough of key systems and processes Interim audit testing	March 2020		
Year end audit Audit Completion procedures	July 2020	JARAP	Audit Planning Report, including any Interim audit update (matters reported by exception)
	November 2020	JARAP	Audit Results Report Audit opinions and completion certificates Annual Audit Letter

Please note:
1) We have been informed by the Leicestershire Pension Fund auditor, that they expect to be able to provide the IAS19 assurances by the end of September. We are not able to conclude our audit until we have considered the results of the IAS19 assurances.

2) MHCLG have changed the financial reporting dates in light of Covid-19. PCC/CC is now required to publish its draft statements by the 31 August (from 31 May) and publish audited accounts (where they have been audited) by 30 November (from 31 July).

The timeline takes advantage of the MHCLG flexibilities, however we are aware that these dates may be subject to further change as a result of the unforeseen challenges caused by COVID-19.

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement associate partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and/or CC. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately nil. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and/or CC Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020.

We are aware that the PCC and CC for Leicestershire do not class as Public Interest Entities however we will continue to monitor the revised standards to ensure that EY continue to remain compliant with all FRC Standards.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here: https://www.ey.com/en_uk/who-we-are/transparency-report-2019

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

We have communicated to PCC / CC, that the scale fee will be impacted by a range of factors which will result in additional work. The PCC/CC have not agreed our estimated variation to the scale fee of £44,246 but understand that we have submitted our fee estimate to PSAA to determine the 2019-2020 audit fee. Our assessment is that the scale fee for the PC / CC should be increased from **£36,521 to £80,767**. This fee estimate does not take account of the additional audit procedures we consider necessary to respond to the financial reporting and value for money risks arising from Covid-19.

	Fees 2018/19*	Scale Fee 2019/20	Planned Fee 2019/20
	£	£	£
Total PCC Fee – Code work	£24,971	£24,971	£51,121
Total CC Fee – Code work	£11,550	£11,550	£23,646
Increase in scale fee/scale fee variation	£15,000 (Note 1)		£44,246 (Note 2)
Total fees (***exclude VAT)***	£51,521	£36,521	£80,767

Note 1 - The PPC/CC have not agreed our estimated variation to the scale fee for 2018/19, the variation covers additional work undertaken over PPE assumptions, pensions and jointly controlled operations. The PCC / CC understand that we have submitted our fee estimate to PSAA.

Note 2 - The issues we have identified at the planning stage which will impact on the fee include:

- additional Financial Statement Risks (£10,462)
- additional Value for Money Risks (£3,448)
- additional work as a result of group accounts (£3,416)
- costs associated with professional and regulatory compliance changes including additional property valuation requirements and additional pension requirements (£22,193)
- technology and preparedness costs (£1,560)

Further details are set out in pages 37 and 38

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

- The fee presented is based on the following assumptions:
- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.
Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as the PCC and CC the extent of audit procedures now required mean it will take 1000-1100 hours to complete a quality audit. A commercial benchmark for this size of external audit would be in the region of £100,000.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

   - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

   - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:

   - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

   - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we have quantified the impact of the above and accurately re-assessed what the baseline fee should be for the PCC and CC in the current environment. The PCC/CC have not agreed our estimated variation to the scale fee but understand that we have submitted our fee estimate to PSAA to determine the 2019-2020 audit fee. Our assessment is that the scale fee for the PC / CC should be increased from £36,521 to £80,767. This fee estimate does not take account of the additional audit procedures we consider necessary to respond to the financial reporting and value for money risks arising from Covid-19

Appendix B

Required communications with the PCC and CC

We have detailed the communications that we must provide to the PCC and CC**.**

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (July 2020)
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit results report (estimated November 2020)

Appendix B

Required communications with the PCC and CC (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report (estimated November 2020)
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report (estimated November 2020)
Fraud	▸ Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report (estimated November 2020)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report (estimated November 2020)

Appendix B

Required communications with the PCC and CC (continued)

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report (July 2020) and Audit results report (estimated November 2020)

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report (estimated November 2020)
Consideration of laws and regulations	▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the PCC and CC into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the PCC and CC may be aware of	Audit results report (estimated November 2020)
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Management letter/audit results report (estimated November 2020)

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (estimated November 2020)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (estimated November 2020)
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report (estimated November 2020)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report (July 2020) Audit results report (estimated November 2020)

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the JARAP reporting appropriately addresses matters communicated by us to the JARAP and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.