Report to those charged with governance (ISA 260) 2012/13

Lincolnshire Police and Crime Commissioner

Lincolnshire Chief Constable

September 2013

Contents

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This report is addressed to the Lincolnshire Police and Crime Commissioner (PCC) and Lincolnshire Chief Constable (CC) and has been prepared for the sole use of the PCC and CC. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the PCC and CC, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Section one

Introduction

This report summarises:

- **the key issues identified during our audit of the Lincolnshire Office of the Police and Crime Commissioner (PCC) and Lincolnshire Chief Constable's (CC) financial statements for the year ended 31 March 2013; and**
- **our assessment of the PCC and CC's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our *External Audit Plan 2012/13* provided to you in March 2013 set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and June to July 2013 (year end audit). We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems
- Review accounts production process
- Review progress on critical accounting matters

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Office of the Police and Crime Commissioner (PCC) and the Chief Constable (CC), the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Acknowledgements

We would like to take this opportunity to thank the officers of G4S and the Police & Crime Commissioner and Chief Constable, and the Interim Independent Audit Committee for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013 for both the PCC and CC accounts. We also expect to report that the respective Annual Governance Statements accord with our understanding of the organisation and notably was suitably amended to reflect the outcome of the recent independent review.
Audit adjustments	We identified four material errors in the course of the audit. These are presentational and do not affect the outturn. Our audit also identified two further errors in accounting. The effect of these items increased the deficit on the Comprehensive Income and Expenditure Statement (CIES) by £1.2m.
Accounts production and audit process	The PCC and CC have developed an adequate process for the production of the accounts and working papers. We will continue to assist officers in achieving further improvements. We note that the asset register is not yet fully compliant with accounting standards. We understand that this will be addressed in 2013/14 with the introduction of a new information system. Officers dealt efficiently with audit queries and the main audit was completed within the planned timescales.
Control environment	The organisational and IT control environment is generally effective, and controls over the key financial systems are sound.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC and CC's financial statements.
VFM conclusion	We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Proposed opinion and audit differences

We identified four material errors in the course of the audit . These are presentational and do not affect the outturn.

Our audit also identified two further errors in accounting. The effect of these items increased the deficit on the accounts by £1.2m.

To address the errors in the accounts and the unplanned work an additional audit fee was charged.

Our review of the Annual Governance Statement accords with our understanding of the organisation and notably was suitably amended to reflect the outcome of the recent independent review.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified four material errors in the accounts but these were reclassifications and/or presentational and did not affect the outturn. All four errors impacted on the Police & Crime Commissioner 's (PCC) financial statements, but only the first item below affected the Chief Constable's (CC) accounts:

- CIES - £7.3m reapportionment of costs between investigation and local policing subjective headings.
- Cash flow - £29m reallocation of values between headings – primary item being disclosure of £27.3m of investments transactions.
- Note 18 - £2.8m / £2.4m debtors and creditors values adjusted to be consistent with balance sheet.
- Note 29 - £16.9m adjustment to correctly reflect deficit on the Police Pensions Account.

We also identified a number of non-material presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. The accounts have been duly amended.

Our audit also identified two errors in accounting that required additional, unplanned audit work. This was in respect of the PCC's financial statements for the sale and leaseback of computer equipment and an inappropriate prior period adjustment. The effect of these two items increased the reported deficit on the CIES by £1.2m.

We needed to carry out additional work in response to these errors and we expect this to result in additional fees.

Further details of the adjustments to the accounts are provided in Appendix 1.

As we have previously reported to this Committee, the accounting framework relating to the content of the PCC and CC's financial statements is not yet complete. In order to ensure that the CC's accounts are compliant with the Code, the contents of the Operating Cost Statement in the pre-audit accounts have been transferred to a note to CC's statements. There is likely to be further guidance in 2013/14.

Annual Governance Statement

We have reviewed the Annual Governance Statement (AGS) for the PCC and CC and confirmed that:

- They comply with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- They are not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Accounts production and audit process

The PCC and CC have developed an adequate process for the production of the accounts and working papers. We will continue to assist officers in achieving further improvements.

We note that the asset register is not yet fully compliant with accounting standards. We expected this to be addressed in 2013/14 with the introduction of a new information system.

Officers dealt efficiently with audit queries and the audit process was generally completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the PCC and CC's accounting practices and financial reporting. We also assessed the process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The PCC and CC generally have adequate financial reporting arrangements in place. During 2012 the provision of support functions of Lincolnshire Police were transferred to G4S. Most staff previously involved in the accounts process have continued to be so. There were some errors as set out in the report, but the statements were generally of a good standard. We note that the asset register does not have the functionality to contain componentisation of assets and so is not fully compliant with accounting standards. This is expected to be addressed in 2013/14 with the introduction of the T-Police information system.
Completeness of draft accounts	We received a complete set of draft accounts in mid-June 2013 and ahead of the 30 June 2013 deadline, allowing the audit to happen earlier than in previous years. The accounts contained all the expected content.

Element	Commentary
Quality of supporting working papers	Our working paper requirements for the audit were discussed in detail with management and G4S prior to the main audit visit. The quality of working papers generally met the standards specified. We will continue to work with G4S to further develop its processes.
Critical accounting matters (key audit risks) .	We have discussed with officers throughout the audit any areas of specific audit risk that required us to undertake specific audit procedures. Our plan identified one such risk: *Transition from the Police Authority to the PCC and CC. Although there is some national guidance available on the preparation of the accounts under the new arrangements this is still evolving and requires a considerable amount of local decisions to be made* Our review confirmed the latest guidance was utilised to prepare the 2012/13 accounts, but this guidance has evolved. The accounts were amended following audit to be consistent with the Code. There is likely to be further guidance in 2013/14, and we will continue to liaise with officers if and when it is issued.
Response to audit queries	Officers resolved audit queries within the expected timescales.

Control environment

The organisational and IT control environment is generally effective, and controls over the key financial systems are sound

During March 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and IT control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the PCC and CC's overall control environment and determine if appropriate controls have been implemented.

The plan for transition to the creation of the PCC & CC included a decision not to change any IT systems during the 2012/13. Our review has not identified any fundamental weaknesses that we need to bring to your attention.

Review of Internal Audit

Where we intend to rely on internal audit's work in respect of the PCC and CC's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We have reviewed the results of internal audit's work on the key financial systems. We are not aware of any significant issues with internal audit's work or their compliance with the Code of Practice for Internal Audit in Local Government .

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of the year end financial process indicate controls are sound.

Note that whilst we identified accounting errors as detailed on page 4 these related to the interpretation of financial values into the accounts rather than any weakness in the underlying financial systems.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC and CC's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Lincolnshire Police and Crime Commissioner and the Lincolnshire Chief Constable for the year ended 31 March 2013, we confirm that there were no relationships between KPMG LLP and the Lincolnshire Office of the Police and Crime Commissioner and the Lincolnshire Chief Constable, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer, which is reproduced in Appendix 3. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' .

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the 2012/13 financial statements.

VFM conclusion

Our VFM conclusion considers how the PCC and CC secure financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that there are proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Police and Crime Commissioner (PCC) and Chief Constable (CC) have proper arrangements in place for:

- securing financial resilience: looking at the PCC and CC's financial governance, financial planning and financial control processes; and
- challenging how they secure economy, efficiency and effectiveness: looking at how the PCC and CC are prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the PCC and CC to mitigate these risks and plan our work accordingly. Our approach was set out in more detail in our *External Audit Plan 2012/13*.

Findings

As part of our review we considered the work of other inspectorates and notably Her Majesty's Inspectorate of Constabulary (HMIC). Within this context the re were two pertinent reports:

"*Policing in Austerity: Rising to the Challenge"* (July 2013) recognised the steps that had been taken in Lincolnshire, whilst also raising concerns about the longer term financial position.

"*Lincolnshire Police's response to the funding challenge*" (July 2013) This noted good progress in delivering cost reductions of £19.8m for the four years to 2015 whilst also continuing to fight crime.

Additionally the Office of the PCC provided a self assessment of VFM arrangements, which was very useful for our review. Financial plans remain challenging , and there is clear recognition of the need to continue to tackle the issues highlighted by HMIC for the longer term. We will continue to monitor this matter.

Conclusion

We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: Audit differences

Our audit identified four material errors in the accounts but the changes either offset themselves or were in disclosure notes and had no effect on turnover. However outturn was adversely affected by the correction in the accounting for the sale and leaseback of computer assets.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (being the PCC and CC). We are also required to report all material misstatements that have been corrected but we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit the PCC and CC's financial statements for the year ended 31 March 2013.

	Impact				
No.	Income and Expenditure Statement	Assets	Liabilities	Cash flow	Basis of audit difference
1	Debit £7,324k: PCC Gross expenditure - Investigation Credit £7,324k: PCC Gross expenditure - Local policing Debit £7,324k: CC Gross expenditure - Local policing Credit £7,324k: CC Gross expenditure - Investigation				The source data for the allocation of costs over the service headings were incorrectly analysed when compiling the accounts.

Appendix 1: Audit differences

Our audit identified four material errors in the accounts but the changes either offset themselves or were in disclosure notes and had no effect on turnover. However the reported surplus was adversely affected by the correction in the accounting for the sale and leaseback of computer assets.

	Impact				
No.	Income and Expenditure Statement	Assets	Liabilities	Cash flow	Basis of audit difference
2				Debit short term/ long term investments £27,300k Credit proceeds from short term investments £27,300k Other debit / credit adjustments £1,686k	Incorrect classification of investments, borrowing repayments, long term debtor, finance lease liability and capital grant amortisation within the cash flow statement.
3		Note 18: credit Debtors £2,857k	Note 18: credit Creditors £2,423k		Note 18: financial instruments – values required adjustment to align with balance sheet entries.
4		Note 29: debit Employers pension contributions £16,858k	Note 29: credit retirement benefits £16,858k		Note 29: pensions - alignment of values to correctly reconcile to police pension costs in Note 54.

Appendix 1: Audit differences

Our audit identified four material errors in the accounts but the changes either offset themselves or were in disclosure notes and had no effect on turnover. However outturn was adversely affected by the correction in the accounting for the sale and leaseback of computer assets and removal of the prior period adjustment.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Cash flow**	**Basis of audit difference**
5	Debit £2,303k Credit £1,067k	Debit £437k Credit £1447k	Debit £211k Debit capital adjustment account £884k Credit revaluation reserve £85k		Being all other changes to the accounts. The majority of which relates to the correction of the accounting entries for the sale and leaseback of computers and removal of the prior period adjustment. This caused an increase in the reported deficit on the income & expenditure account of £1,236k.

The material errors noted above in items 1 and 2 net to zero and so have no effect on outturn. Items 3 and 4 are within disclosure notes to the accounts and so do not affect values in the prime statements. The residual entry at note 5 consolidates all other audit changes to the accounts and of this the prime element relates to the correction to the sale and leaseback of computer assets. This included a loss on disposal with a net effect of increasing the reported deficit by £1,236k.

Appendix 2: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the PCC and CC.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Governance and Performance Working Group

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC and CC's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of the Lincolnshire Police and Crime Commissioner and the Lincolnshire Chief Constable for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and the Lincolnshire Police and Crime Commissioner, nor the Lincolnshire Chief Constable, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

We will require one letter for each of the PCC and CC accounts. The wording of the suggested PCC letter is provided here.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The Office of the Police and Crime Commissioner for Lincolnshire ("the PCC"), for the year ended 31 March 2013, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of The Police and Crime Commissioner for Lincolnshire and its Group as at 31 March 2013 and of the PCC's and Group's expenditure and income for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Group Movement in Reserves Statement, the PCC and Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and the related notes.

The PCC confirms that the representations he makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The PCC confirms that, to the best of his knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

The PCC has fulfilled his responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Group as at 31 March 2013 and of the PCC's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The financial statements have been prepared on a going concern basis.

Measurement methods and significant assumptions used by the PCC in making accounting estimates, including those measured at fair value, are reasonable.

All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.

Information provided

The PCC has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the PCC for the purpose of the audit; and
- unrestricted access to persons within the PCC and Group from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

The PCC acknowledges his responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the PCC acknowledges their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The PCC has disclosed to you the results of his assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

We will require one letter for each of the PCC and CC accounts.

The PCC has disclosed to you all information in relation to:

- Fraud or suspected fraud that it is aware of and that affects the PCC and the Group and involves:

management;

employees who have significant roles in internal control; or

others where the fraud could have a material effect on the financial statements; and

- allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

The PCC has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

The PCC has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

The PCC has disclosed to you the identity of the PCC's and the Group's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the PCC understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

On the basis of the process established by the PCC and having made appropriate enquiries, the PCC is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The PCC further confirms that:

all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Interim Independent Audit Committee on 25 September 2013.

Yours faithfully,

Office of the Police & Crime Commissioner for Lincolnshire, Chief Finance Officer

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

We will require one letter for each of the PCC and CC accounts.

Appendix A Management Representation Letter: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when the PCC applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

The PCC is also required to present group accounts in addition to its single entity accounts in relation to the Chief Constable.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue, and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

We will require one letter for each of the PCC and CC accounts.

Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the PCC (ie subsidiaries);
- Associates;
- joint ventures in which the PCC is a venture;
- an entity that has an interest in the PCC that gives it significant influence over the PCC;
- key management personnel, and close members of the family of key management personnel; and
- post-employment benefit plan (pension fund) for the benefit of employees of the PCC, or of any entity that is a related party of the PCC.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the PCC and other persons having the PCC and responsibility for planning, directing and controlling the activities of the PCC, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13:

- providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an PCC by virtue only of those dealings; and
- an entity with which the relationship is solely that of an agency.

Related Party Transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the PCC or the government of which it forms part.

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