KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

Police and Crime Commissioner for Lincolnshire and Chief Constable of Lincolnshire

September 2014

Contents

The contacts at KPMG in connection with this report are:

Sue Sunderland
Director
KPMG LLP (UK)

Tel: 0115 945 4490
sue.sunderland@kpmg.co.uk

Helen Brookes
Manager
KPMG LLP (UK)

Tel: 0115 945 44876
helen.brookes@kpmg.co.uk

Jon Machej
Assistant Manager
KPMG LLP (UK)

Tel: 0115 935 3430
jon.machej@kpmg.co.uk

Report sections	Page
Introduction	2
Headlines	3
Financial statements	4
VFM arrangements conclusion	10
Appendices	
1. Key issues and recommendations	12
2. Audit differences	18
3. Declaration of independence and objectivity	22

This report is addressed to the Police and Crime Commissioner and the Chief Constable and has been prepared for their sole use. 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 Sue Sunderland **the appointed engagement lead to the Authority, 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 0303 4448 330.**

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the PCC and CC; and**
- **our assessment of the PCC's and the CC's arrangements to secure value for money (VFM) in its use of resources.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at the Police and Crime Commissioner for Lincolnshire ('the PCC') and the Chief Constable of Lincolnshire ('the CC') on their 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) arrangements conclusion.

ISA 260 requires us to produce this report for those charged with governance; the PCC and the CC acting as corporations sole. We are also providing a copy of this report to the Joint Independent Audit Committee to assist with their role.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2014.

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

VFM arrangements conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission.

We have now completed our work to support our 2013/14 VFM arrangements conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM arrangements conclusion; and
- considering the results of any relevant work by the PCC and CC, and 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 our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM arrangements conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank the finance teams and other colleagues for their continuing help and co-operation throughout our audit work.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing unqualified audit opinions on the financial statements for both the PCC and CC by 30 September 2014. We will also report that the wording of your Annual Governance Statements accord with our understanding.
Audit adjustments	For the PCC and the CC our audit has identified a significant number of audit adjustments. Many of these were presentational, but some errors identified during the audit have had an effect on the primary statements and accompanying notes. The overall impact of these adjustments was to increase the deficit on provision of services for the year by £22k. We have included a full list of significant audit adjustments at Appendix 2. All of these were adjusted by the PCC and the CC. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1.
Changes in accounting approach	New authoritative guidance has been issued by CIPFA to assist police bodies in allocating financial activity between the PCC and the CC in their single entity financial statements. The CC has therefore recognised the costs of operational policing in their 2013/14 financial statements. A prior period adjustment has been made to ensure the financial statements are comparable between the two periods.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We have worked with officers throughout the year to discuss specific risk areas. The PCC and the CC addressed the majority of issues appropriately.
Accounts production and audit process	We have noted a deterioration in the quality of the accounts and the availability and quality of supporting working papers. As a consequence of the increased audit input required, an increase from the scale fee will be necessary and we are proposing an additional fee of £8,600, subject to Audit Commission approval. Officers dealt with the majority of audit queries within a reasonable time but in some cases we experienced delays in the audit process.
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 financial statements of the PCC and the CC.
VFM arrangements conclusion and risk areas	We have concluded that the PCC and the CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources. We therefore anticipate issuing an unqualified VFM arrangements conclusion by 30 September 2014.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Proposed opinion and audit differences

Our audit has identified a significant number of audit adjustments. Many of these were presentational and disclosure errors but there were also issues with:

- **Lack of internal consistency of figures within the accounts**
- **Failure to reconcile the property, plant and equipment (PPE) figures between the fixed asset register, the ledger and the accounts**
- **Incorrect extraction of income and expenditure figures to the analysis required by the Service Reporting Code of Practice (SeRCOP)**

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the financial statements of the PCC and the CC following approval of the Statement of Accounts by the PCC and the CC on 3 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to those charged with governance. 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.

There were no uncorrected errors. However, our audit identified a significant number of audit differences, which we set out in Appendix 2. The main issues that we identified were:

- lack of internal consistency of the accounts which meant that some figures did not agree between notes and primary statements;
- the asset register did not reconcile to the ledger and the accounts and there were errors in the figures for disposals and revaluations. The consequence of this has been adjustments to figures for property, plant and equipment and the related capital notes, with the net impact being an increase in expenditure for the year of £22k, which has subsequently been reversed out through the MiRS; and
- the figures within the Service Reporting Code of Practice (SeRCOP) analysis had been incorrectly classified although this had no overall effect on the total.

In addition, we identified a number of presentational and classification adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the PCC and PC will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statements and confirmed that:

- they complies 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.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Changes in accounting approach

We have worked with management to consider the implications of the new accounting guidance issued by CIPFA. The PCC and the CC have revised the accounting approach adopted for 2013/14, and in the prior period, to reflect these discussions.

For 2013/14, the PCC and the CC have changed the basis on which their single entity financial statements have been produced.

Prior period approach

For 2012/13, in common with PCCs and CCs in many other police areas, the PCC and the CC adopted the concept of agent/principal when accounting for their activity. This approach recognised:

- the PCC's strategic policing role in setting the Police and Crime Plan;
- the CC's use of assets owned by the PCC, and of police staff employed by the CC, to deliver the CC's operational policing role; and
- the PCC's ability to hold the CC to account.

As a result, it was considered that the CC was acting as the PCC's agent, with the CC managing the PCC's resources to meet the PCC's strategic objectives, rather than as a principal in their own right. This meant that operational policing and all other activity was recognised in the PCC's primary statements only, with the CC producing 'zero' accounts, that explained their role and showed the resources deployed by the CC on the PCC's behalf, but did not recognise any income and expenditure or assets and liabilities.

Despite the significantly different approaches adopted by different police bodies, there were no qualified audit opinions issued in 2012/13 because the lack of definitive guidance meant that the wide range of different approaches were all considered reasonable to reflect the nature of local arrangements.

Why change the approach for 2013/14?

The inconsistencies that were apparent in 2012/13 prompted a reconsideration of the basis of police accounting and a desire for greater consistency between the accounts of PCCs and CCs in different police areas.

Changes enacted in the Anti-social Behaviour Act 2014 made CCs local authorities in their own right, changed the statutory basis on which CC's prepared their financial statements, legally requiring them to adopt the Code of Audit Practice for Local Accounting, and permitting CIPFA to consider issuing guidance on interpreting the Code for CCs.

In March 2014, CIPFA issued LAAP Bulletin 98A which provided police bodies with authoritative guidance on apportioning activity and assets between the PCC and the CC in their respective single entity financial statements. The Audit Commission and its audit suppliers, including KPMG, have discussed the guidance to ensure a consistent approach is being adopted to the audit of PCC and CC accounts in 2013/14.

What changes have been made?

Following discussions between the Responsible Finance Officers and ourselves, we have agreed that, on the basis of the new guidance issued since our 2012/13 audit opinion was issued in September 2013, it is appropriate to change the accounting approach adopted for 2013/14.

In 2013/14, the CC is recognising the operational costs of policing as costs within the Comprehensive Income and Expenditure Statement. This includes the full costs of employing police officers and civilian staff, except for staff employed in the Office of the PCC.

All other income and expenditure, assets and liabilities are recognised by the PCC in their single entity financial statements. A prior period adjustment has been made to both sets of financial statements to apply the same accounting approach to the prior period, to make the financial performance and position in both years comparable.

There have been no changes to the group financial performance or position reported in 2012/13 as a result of these changes.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

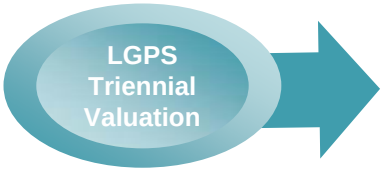
Key financial statements audit risks and other audit issues

We have worked with officers throughout the year to discuss specific risk areas. The PCC and the CC have addressed these issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in March 2014 we identified the key risks and other audit issues affecting the 2013/14 financial statements for the PCC and CC. We have now completed our testing of these areas and set out our evaluation following our substantive work.

Key financial statements audit risks

The table below sets out our detailed findings for each of the risks that are specific to the PCC and the CC.

Key audit risk	Issue	Findings
	During the year, the Local Government Pension Scheme for Lincolnshire (the Pension Fund) underwent a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The PCC and CC's shares of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS 19 numbers included in the financial statements for 2013/14 are based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There was a risk that the data provided to the actuary for the valuation exercise would be inaccurate and that these inaccuracies would affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lincolnshire County Council who administer the Pension Fund.	We have confirmed that the PCC/CC has obtained independent actuarial valuations and that the underlying data submitted to the actuary for this purpose was complete and accurate. We have also confirmed that the assumptions underpinning the actuarial valuations have been reviewed by management and found to be reasonable, and that the IAS19 figures in the accounts agree to the information provided by the actuary. We have also obtained assurances from the auditors of the Pension Fund as to the processes in place at Lincolnshire County Council.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Key financial statements audit risks and other audit issues (continued)

Professional standards

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.
Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Other audit issues

The table below sets out the other issues we have identified through our planning work that is specific to the audit of the PCC and CC's financial statements for 2013/14.

Other audit issues	Issue	Findings
New Financial Ledger System	During the year, the PCC and CC have implemented a new integrated financial ledger system encompassing all the key financial systems. There was a risk that the data transferred between the systems would be incomplete or inaccurate and that these inaccuracies would affect the figures in the accounts.	We have confirmed the completeness and accuracy of the data migration between the two systems, in particular confirming that the previous years closing ledger balances were in agreement to the current years opening balances.
Evolving accounting structures	Last year PCCs and CCs were required to produce financial statements under group accounting requirements for the first time. Although there was some national guidance available on the preparation of the accounts under these new arrangements, differing interpretations and approaches were implemented nationally. Guidance and approaches were still evolving and required a considerable amount of local decisions to be made. It was therefore important that a clear trail was maintained to justify the decisions made.	We had discussions with finance staff as the accounting guidance evolved. We agreed an appropriate way forward and we are satisfied that the accounts, as presented, are compliant with the agreed approach.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Accounts production and audit process

We have noted a deterioration in the quality of the accounts and the quality and availability of supporting working papers.

Officers dealt with the majority of audit queries within a reasonable time but in some cases we experienced delays in the audit process.

Accounts production and audit process

ISA 260 requires us to communicate to those charged with governance, the PCC and the CC as corporations sole, our views about the significant qualitative aspects of their accounting practices and financial reporting. We also assessed the processes for preparing the accounts and supporting an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	This year has seen a deterioration in the quality of the accounts, for example, the internal consistency of figures within the notes. There were also issues with the quality and availability of supporting working papers. We consider that accounting practices are appropriate for the most part. We identified that there was scope to improve arrangements for implementing component accounting in accordance with the requirements of the Code.
Completeness of draft accounts	We received a complete set of draft accounts by 30 June 2014. The PCC and the CC made a number of amendments of a presentational nature after this date but prior to the start of the audit.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in March 2014 and discussed with the Reporting Officer, set out our working paper requirements for the audit. Not all working papers were available at the start of the audit, with particular problems noted in respect of property, plant and equipment and the associated capital financing entries. In additional the overall quality of working papers provided was variable.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit.
Group audit	To gain assurance over the PCC's group accounts, we placed reliance on work completed on the single entity financial statements of the PCC and the CC. There are no specific matters to report pertaining to the group audit.

As a result of the above we have raised a recommendation in respect of the PCC and the CC's working papers which is included in Appendix 1. As a result of the extra work that we had to undertake on the internal consistency of the accounts and the reconciliation of the asset register to the accounts and ledger, we propose an additional fee of £8,600, subject to Audit Commission approval.

Prior year recommendations

There were no recommendations in the previous year's ISA 260 report.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

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

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 Police and Crime Commissioner for Lincolnshire and the Chief Constable of Lincolnshire for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Lincolnshire and the Chief Constable of Lincolnshire, their senior officers and management and their 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 3 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 templates to the Responsible Finance Officers for presentation to the PCC and the CC. We require a signed copy of these management representations before we issue our audit opinions.

Other matters

ISA 260 requires us to communicate to those charged with governance by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the 2013/14 financial statements for the PCC and the CC.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

VFM arrangements conclusion

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

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

Background

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

- securing financial resilience: looking at the financial governance, financial planning and financial control processes at both the PCC and the CC; and
- challenging how the PCC and the CC secure economy, efficiency and effectiveness: looking at how they prioritise resources and improve 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 the CC to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We identified a single specific risk to our VFM arrangements conclusion although concluded we did not need to complete any additional detailed work.

Conclusion

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

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

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Specific VFM risks

We have identified a single specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the current arrangements in relation to these risk areas at the PCC and the CC are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the key business risks affecting the PCC and the CC which are relevant to our VFM arrangements conclusion; and
- identified any specific audit risks for our VFM arrangements conclusion, taking account of work undertaken in previous years or as part of our financial statements audit.

Key findings

Below we set out the findings in respect of those areas where we identified an audit risk for our VFM arrangements conclusion.

We concluded that we did not need to carry out additional work for this risk as there was sufficient relevant work that had completed by the PCC and the CC, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM arrangements conclusion	Assessment
Delivery of planned budget and savings	The 2013/14 budget approved by the PCC included the delivery of £4.8m worth of savings. However, projections showed an estimated underspend against the budget of some £2.4m for the year. As funding levels continue to fall, the PCC has identified that further savings of £2m will be required in 2014/15, with additional savings required to balance the budget in the following years. The PCC needs to manage its savings plans to secure longer term financial and operational sustainability. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	No issues have been identified from our review of the specific risk indicators which would suggest that there is an adverse impact on financial resilience or value for money. All police bodies have been affected by reductions in central funding and these will continue for the next few years. The PCC/CC has to date responded well to these pressures, demonstrating good performance in identifying and delivering savings whilst maintaining the level of reserves. **Specific risk based work required: No**

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The PCC and the CC should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
1 ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2 ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3 ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Relevant body	Issue and recommendation	Management response / responsible officer / due date
				The Chief Finance Officers accept the two priority one issues raised by KPMG. In relation to the deterioration in the quality of the accounts and the quality and availability of working papers, there are some mitigating factors which have been highlighted in the response below from the G4S Finance team. However, an analysis of the post audit changes shows that those adjustments which involved significant complexity and therefore resulted in the additional audit effort related to the capital accounting entries on the PCC Group Accounts and did not therefore arise as a result of the late changes in accounting rules. These issues will be addressed as part of the contract management regime. The following details the G4S Finance teams response to these items:

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Relevant body	Issue and recommendation	Management response / responsible officer / due date
1	1	Both PCC and CC	**Quality of the accounts and quality and availability of working papers** There was a deterioration in the quality of the accounts and the quality and availability of working papers this year. **Recommendation** The finance team should ensure: • Internal consistency of the figures in the draft accounts; • Availability of the working papers specified in the PBC schedule prior to the start of the audit; • Availability of key staff during the audit process; and • Appropriate peer review of working papers prior to handover.	A number of mitigating factors reduced the time available for preparation and review of the financial statements in 13/14: • Guidance around the changes to the PCC/CC accounting split was provided at a very late stage in the preparation process, significantly after the draft accounts were initially due to be completed. • The resulting guidance changes created significant additional work in terms of creating far more comprehensive CC accounts and significantly altering PCC accounts, in addition to the process of identifying and allocating all PCC and CC transactions between the entities. • Regional financial information relating to the PCC's jointly controlled assets was provided late into the accounts preparation process and a number of subsequent adjustments were provided. These figures are out of our control. The result of these factors was a delayed production of the draft accounts and less time to coordinate reviews prior to the June 30 signing of the draft accounts. There was also an impact on the preparation and completeness of working papers for the audit.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Relevant body	Issue and recommendation	Management response / responsible officer / due date
				While a number of working papers were not available at the start of the audit most were provided by the end of the first week, there was no time during the audit where work could not be progressed and the on-site work finished in line with the agreed timetable. For next year we will adopt a number of changes to our approach to prevent a re-occurrence of the delays this year: 1. EMSOU figures will be excluded from all account drafts until the final version to prevent delays and reduce the number of potential adjustments and movements in drafts. 2. A cut-off for applying new guidance will be applied to the draft accounts process so that the process does not become delayed waiting on external factors. Any new guidance issued after the cut-off will be considered separately with subsequent versions adjusted if required. 3. In advance of the yearend a review of the accounts will be completed to agree the format and structure in theory, including any disclosure notes that should be included / excluded going forward. This will reduce the extent of review required at yearend.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The PCC and the CC should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Relevant body	Issue and recommendation	Management response / responsible officer / due date
				In addition to this 14/15 will see a number of efficiencies gained through the CC accounts being set up in 13/14 and all t-Police reports used for the audit already being set up as templates for the new year. Subsequent to the signing of the accounts an audit debrief meeting will be arranged to outline the 14/15 schedule and agree in more detail what working papers are required for the audit. Responsible officer: Reporting manager. Due Date: Actions to be completed by February 2015
2	1	PCC	**Reconciliation of the asset register to the ledger and the accounts** The asset register did not reconcile to the ledger and the accounts and there were errors in the figures for disposals and revaluations. **Recommendation** Finance staff should ensure that the asset register reconciles to the ledger and the accounts.	In 2013/14 the Fixed Asset Register was transferred from the historic spreadsheet used in previous years to the system sub-ledger built into t-Police. A review of the migration of data was completed in early April but missed a number of duplicate assets included in the migration, in addition to EMSOU assets which had been incorrectly included. These assets and the subsequent automatically generated transactions resulted in a number of reconciling differences between the FAR, the general ledger and accounts.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Relevant body	Issue and recommendation	Management response / responsible officer / due date
				The following actions will be undertaken: 1. The assets in question have been identified and agreed with audit and will be removed from the fixed asset register with any generated transactions reversed. This will provide a correct opening balance. 2. A full reconciliation of the opening balance will be completed and reviewed by the end of October. 3. We will then complete a full review of all FAR transactions for the first six months of the year to October by the end of November and complete subsequent monthly reviews going forward. A full FAR download, reconciled to the GL and the draft accounts, will be provided for 14/15 by the end of April 2015 as part of the accounts preparation process. 14/15 will be the first year the benefits of the t-Police FAR are realised as a significant time saving will be achieved through not having to fully update a spreadsheet register and manually generate all accounting transactions. Responsible officer: Reporting manager.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Relevant body	Issue and recommendation	Management response / responsible officer / due date
3	3	PCC	**Component accounting** There is scope to improve arrangements for implementing component accounting in accordance with the requirements of the Code. **Recommendation** The PCC should consider a more formal approach to the introduction of component accounting.	Improvements have been made in the approach to complying with component accounting for the 2013/14 accounts. In particular all buildings above a value of £500k have now been divided into four main components with distinct values and asset lives allocated across each component on a percentage basis provided by the valuer. The PCC land and buildings are re-valued annually at the end of the financial year through a desktop revaluation with a full revaluation every 5 years next due in 2016. At the next full revaluation the valuer will be asked to provide detailed valuations for each component of the significant buildings and specific asset lives for each component. Responsible officer: Reporting manager.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 2: Audit differences

This appendix sets out the significant audit differences.

We have confirmed that all of these have been adjusted.

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, i.e. the PCC and the CC as the corporations sole. We are also required to report all material misstatements that have been corrected but that 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 of the financial statements for the year ended 31 March 2014 for the PCC for Lincolnshire and the CC for Lincolnshire. We have subsequently confirmed that these amendments have been effected by the PCC and CC.

	Impact					
No.	**Income and Expenditure Statement £'000**	**Movement in Reserves Statement £'000**	**Assets £'000**	**Liabilities £'000**	**Reserves £'000**	**Basis of audit difference**
CC						
1	Debit £60: Gross expenditure – Non distributed costs Credit £60: Gross expenditure – Corporate and democratic core					Misclassification of external audit fee as non distributed costs rather than corporate and democratic core
2	Credit £17: Gross income – Seconded officers					Incorrect inclusion of asset disposal income within seconded officers
3	Debit £1,631 and Credit £1,631: Gross expenditure – Various Debit £221 and credit £221: Gross income - Various					Incorrect analysis of income and expenditure across the required SERCOP headings
	Debit £1,912 ***Credit £1,929***					***Impact of adjustments on the CC***

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 2: Audit differences (continued)

No.	Impact					Basis of audit difference
	Income and Expenditure Statement £'000	Movement in Reserves Statement £'000	Assets £'000	Liabilities £'000	Reserves £'000	
PCC						
4	Debit and credit £5,833; Taxation and non-specific grants					Incorrect classification of grant income as Council Tax income
5	Debit £22: Gross expenditure – Non distributed costs	Credit £22: General fund reserve	Credit £2,849: Property, plant and equipment Debit £3,026: Intangibles	Credit £199: Long term liabilities	Debit £22: Capital adjustment account	Incorrect extraction and accounting for property, plant and equipment transactions and associated capital accounting transactions
6	Debit £60: Gross expenditure – Corporate and democratic core Credit £60: Gross expenditure – Non distributed costs					Misclassification of external audit fee as non distributed costs rather than corporate and democratic core
7	Debit £17: Other operating expenditure - Gains or losses on the disposal of PPE					Incorrect inclusion of asset disposal income within seconded officers

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 2: Audit differences (continued)

No.	Impact					Basis of audit difference
	Income and Expenditure Statement £'000	Movement in Reserves Statement £'000	Assets £'000	Liabilities £'000	Reserves £'000	
8	Debit £1,631 and Credit £1,631: Gross expenditure – Various Debit £221 and credit £221: Gross income - Various					Incorrect analysis of income and expenditure across the required SERCOP headings
9	Debit £101 and credit £101: Other operating expenditure - Gains or losses on the disposal of PPE					Failure to disclose transactions in relation to the disposal of property, plant and equipment on a gross basis
	Debit £7,885 Credit £7,846	***Debit £0 Credit £22***	***Debit £3,026 Credit £2,849***	***Debit £0 Credit £199***	***Debit £22 Credit £0***	***Impact of adjustments on the PCC***
10	-	-	-	-	-	Incorrect calculation and disclosure of information within: - Note 39 Reconciliation to Subjective Analysis; - Note 42 Jointly controlled assets; and - Note 50 Capital expenditure and financing
	Debit £7,825 Credit £7,803	***Debit £0 Credit £22***	***Debit £3,026 Credit £2,849***	***Debit £0 Credit £199***	***Debit £22 Credit £0***	***Total impact of adjustments on the Group***

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 2: Audit differences (continued)

There are no uncorrected audit differences.

Uncorrected audit differences

There are no uncorrected audit differences.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 3: Declaration of independence and objectivity

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

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 his. These matters should be discussed with the Joint Independent Audit Committee.

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 Engagement Lead 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.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 3: 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 for Lincolnshire and the CC of Lincolnshire.

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 for the financial year ending 31 March 2014 for the PCC for Lincolnshire and the CC of Lincolnshire , we confirm that there were no relationships between KPMG LLP and the PCC for Lincolnshire and the CC of Lincolnshire, their senior officers and management and their 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.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

KPMG

cutting through complexity™

© 2014 KPMG LLP, a UK public limited partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and ‘cutting through complexity’ are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).