

Joint Audit Findings

Year ending 31 March 2018

Police and Crime Commissioner for Surrey and Chief Constable for Surrey

July 2018



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audits of Surrey Police and Crime Commissioner ('the PCC') and Surrey Chief Constable and the preparation of the PCC and Chief Constable's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">• the group, PCC's and Chief Constable's financial statements give a true and fair view of the group's, PCC's and Chief Constable's financial position and of the group, PCC's and Chief Constable's expenditure and income for the year, and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed on site during June and July. Our findings are summarised on the following pages. We have not identified any adjustments to the Total Comprehensive Income and Expenditure or Net Assets reported in the draft financial statements of the PCC, Chief Constable or Group.</p> <p>There is one material adjustment which has been made in the final versions of the financial statements. This is to recognise £10.2m of income in the PCC's financial statements, which was initially only recognised in the Chief Constable's draft financial statements. This adjustment has arisen following discussion with management about the underlying benefits associated with this income. Through these discussions it became clear that the PCC retains the underlying risks and rewards from this income and the associated costs, i.e. if a surplus or deficit is made on providing these services this will ultimately flow as a benefit or liability to the PCC.</p> <p>We have identified a small number of disclosure adjustments which are detailed in Appendices B and C. Our follow up of recommendations from our prior year audits are detailed in Appendix A.</p> <p>Subject to outstanding queries being resolved, we anticipate providing unqualified audit opinions in respect of the PCC's financial statements, including the group financial statements. We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements. The outstanding items include:</p> <ul style="list-style-type: none">- explanation from management in relation to why there is no accounting policy for financial instruments- receipt of documentation to support two exit packages- completion of our work in relation to the police officers' pension scheme- completion of our work in relation to creditors- final internal quality review- receipt of management representation letters; and- receipt and review of the final sets of financial statements. <p>These items are outstanding due to writing this report at a moment when audit work was scheduled. None of these items have been outstanding for a significant length of time.</p>
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Headlines

This table summarises the key issues arising from the statutory audits of Surrey Police and Crime Commissioner ('the PCC') and Surrey Chief Constable and the preparation of the PCC and Chief Constable's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We have concluded that the other information published with the financial statements, which includes the Annual Governance Statements and Narrative Reports are consistent with our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the PCC and Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the PCC and Chief Constable's value for money arrangements.</p> <p>We used internal specialists to review and assess the current position and future risks to your joint ERP programme. We have summarised our findings in this report and produced a separate report which contains the detailed findings and recommendations.</p> <p>We have concluded that Surrey PCC and Chief Constable each have proper arrangements to secure economy, efficiency and effectiveness in their use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion to both entities</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audits	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audits when we give our audit opinions</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and others during our audits.

Summary

Overview of the scope of our audit

- This Joint Audit Findings presents the observations arising from the audits that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.
- As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on both sets of financial statements that have been prepared by management with the oversight of those charged with governance. The audits of the financial statements do not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

- Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's business and is risk based, and in particular included:
 - An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response.
 - Full scope audits of both the PCC and Chief Constable financial statements
 - An evaluation of the PCC's and Chief Constable's internal controls environment including its IT systems and controls; and
 - Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audits of your financial statements and subject to outstanding queries being resolved, we anticipate issuing a unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable. We also anticipate providing a unqualified opinion in respect of the Chief Constable's financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as those reported in our audit plan.

We determined materiality to be £4,684k, which equates to 2% of the 2016/17 audited gross revenue expenditure of the Chief Constable.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

'Clearly trivial' has been set at £234k (PY £234k).

Significant audit risks

Risks identified in our Audit Plan	Relevant to	Commentary
<p>1 Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Both	<p>Auditor commentary</p> <p>As detailed in our Joint Audit Plan, we do not consider this to be a significant risk for the PCC or the Chief Constable.</p> <ul style="list-style-type: none"> • Summary of workperformed and audit findings: <ul style="list-style-type: none"> – review of accounting policy – Review of classification of revenue – testing material revenue balances to source documentation <p>Our audit work has not identified any issues in respect of improper revenue recognition and have continued to rebut this risk.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	Both	<p>Auditor commentary</p> <ul style="list-style-type: none"> • Summary of workperformed and audit findings: <ul style="list-style-type: none"> – review of accounting estimates, judgements and decisions made by management – Identification and testing of unusual journal entries – review of accounting policies – review of unusual significant transactions <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant audit risks

	Risks identified in our Audit Plan	Relevant to	Commentary
3	<p>Valuation of property, plant and equipment</p> <p>The PCC revalues its land and buildings on a five yearly basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	PCC	<p>Auditor commentary</p> <p>Summary of work performed and audit findings:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • review of the competence, expertise and objectivity of Bruton Knowles (management's expert) • review of the instructions issued to Bruton Knowles as valuation experts and the scope of their work • discussions with Bruton Knowles about the basis on which the valuation was carried out, challenging the key assumptions • review and challenge of the information used by Bruton Knowles to ensure it was robust and consistent with our understanding. • testing of revaluations made during the year to ensure they were input correctly into the PCC's asset register • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Subject to the finalisation of our procedures as noted on page 3, our audit work has not identified any issues in relation to the valuation of property, plant and equipment.</p>
4	<p>Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability, the Police Officer Pension schemes fund liability and associated disclosure notes in the financial statements, represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	Chief Constable (and Group)	<p>Auditor commentary</p> <p>• Summary of work performed and audit findings:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out the PCC and Chief Constable's pension fund valuations. Actuaries are Hymans Robertson (Local Government Pension Scheme) and GAD (Police Officer Pension Scheme). • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • review of the consistency of the Local Government Pension Scheme pension fund asset and liability liability disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Subject to the finalisation of our procedures as noted on page 3, our audit work has not identified any issues in relation to the valuation of the pension fund net liability</p>


Reasonably possible audit risks

Risks identified in our Audit Plan	Relevant to	Commentary
<p>5 Employee remuneration Payroll expenditure represents a significant percentage (80%) of the Chief Constable's (and therefore the group's) operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>Chief Constable (and Group)</p>	<p>Auditor commentary</p> <p>Summary of work performed and audit findings</p> <ul style="list-style-type: none"> evaluated the PCC's and Chief Constable's accounting policies for recognition of payroll expenditure for appropriateness gained an understanding of the PCC's and Chief Constable's systems for accounting for payroll expenditure and evaluated the design of the associated controls tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces analysed trends and relationships to identify anomalous areas for further investigation agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness <p>Subject to the finalisation of our procedures as noted on page 3, our audit work has not identified any issues in relation to employee remuneration.</p>
<p>6 Operating expenses Non-pay expenses on other goods and services also represents a significant percentage (16%) of the Chief Constable's (and therefore the group's) operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention:</p>	<p>Chief Constable (and Group)</p>	<p>Auditor commentary</p> <p>Summary of work performed and audit findings</p> <ul style="list-style-type: none"> evaluated the PCC's and Chief Constable's accounting policy for recognition of non-pay expenditure for appropriateness; gained an understanding of the PCC's and Chief Constable's system for accounting for non-pay expenditure and evaluate the design of the associated controls; tested payments made after year end to identify potential unrecorded liabilities and gained assurance over the completeness of the payables balance in the accounts. tested a sample of operating expenses to supporting documentation <p>Subject to the finalisation of our procedures as noted on page 3, our audit work has not identified any issues in relation to operating expenditure.</p>

Reasonably possible audit risks (continued)

Risks identified in our Audit Plan	Relevant	Commentary
<p>7 Police pension schemes benefits payable</p> <p>The Chief Constable administers three police pension schemes, with the Police Pension Fund Account being included in the Chief Constable's and therefore the group's financial statements.</p> <p>We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.</p>	<p>Chief Constable (and Group)</p>	<p>Auditor commentary</p> <p>Summary of work performed and audit findings:</p> <ul style="list-style-type: none"> gained an understanding of the Chief Constable's systems for calculating, accounting for and monitoring pension benefit payments and evaluated the design of the associated controls; tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces tested monthly pension benefit payments made in year tested lump sum benefit payments made in year <p>Subject to the finalisation of our procedures as noted on page 3, our audit work has not identified any issues in relation to employee remuneration expenditure</p>


Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>PCC</p> <ul style="list-style-type: none"> The accounts reflect the normal accruals concept for both capital and revenue. Debtors are included within the Balance Sheet where services have been provided but not yet reimbursed at the year end. Government grants and third party contributions are recognised as income at the date the Group satisfies the conditions of entitlement to the grant or contribution, where there is a reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. <p>Chief Constable</p> <ul style="list-style-type: none"> Revenue from the PCC is recognised as an intra-group adjustment. Revenue which the Chief Constable has generated is shown separately, to enhance transparency for the user. 	<p>PCC audit</p> <ul style="list-style-type: none"> The accruals concept and method of grant recognition are appropriate policies under the Code of Practice on Local Authority Accounting. The Policing Protocol Order 2011 states that the PCC is the recipient of all funding related to police and crime reduction (paragraph 16) and has the legal power and duty to decide the budget and allocate assets and funds to the Chief Constable (paragraph 17(d)). Revenue has initially been recognised in the PCC's Comprehensive Income and Expenditure Statement and is then shown to be transferred to the Chief Constable to match expenditure. It is therefore reasonable to adopt this recognition policy and to include Non Current and Current Debtors on the PCC's balance sheet. <p>Chief Constable audit</p> <ul style="list-style-type: none"> The Comprehensive Income and Expenditure Account shows intra group funding. This funding is non-specific and is therefore shown as a separate line rather than being allocated to specific policing services. Paragraph 2.1.2.26 of the Code of Practice defines income as 'the gross flow of economic benefits... when those inflows... result in an increase in reserves' i.e. has to have an impact on equity. This is consistent with the underlying standard, IAS 18 (Revenue). Without the funding from the PCC, the Chief Constable would effectively be left with a large negative reserve. Therefore it is reasonable that the funding from the PCC meets the definition of revenue. <p>Management had proposed a change in accounting treatment to recognise income received for certain services in the Chief Constable's accounts without it first being recognised in the accounts of the PCC. Following discussion, management have agreed to change the way this is presented to reflect that the PCC retains the underlying risks and rewards from this income and the associated costs. See appendix C for detail.</p> <p>Our testing to date of government grants and contributions and other revenues has not identified other any instances of inappropriate revenue recognition.</p>	




Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<p>PCC</p> <ul style="list-style-type: none"> The cost of an item of property, plant and equipment is capitalised provided that the asset will benefit the Group for a period of more than one year, and the cost of the item can be measured reliably. The accounts reflect the normal accruals concept for both capital and revenue. Creditors are included within the Balance Sheet for goods and services supplied but not paid for at the year end. 	<p>PCC audit</p> <ul style="list-style-type: none"> Management consider the PCC to be in control of tangible and intangible assets, as it is the PCC's decision whether to buy or sell these assets and the position retains the risks and rewards of ownership. This is reasonable given that the PCC has direct formal control over who can use these assets. 	
- Cost recognition	<p>Chief Constable</p> <ul style="list-style-type: none"> All expenditure is paid for by the PCC including the wages of police staff and officers, and no actual cash transaction or events take place between the two entities. Costs are however recognised within the Chief Constable's Accounts to reflect financial resources consumed. The accounts reflect the normal accruals concept whereby costs for services are included in the year to which they relate. 	<p>Chief Constable audit</p> <ul style="list-style-type: none"> Management have included police officer and police staff employee remuneration in the Chief Constable's Comprehensive Income and Expenditure Statement. In substance the Chief Constable has direct operational control of police officers and police staff. This means that it is appropriate to recognise the full costs of employment for delivering the Police and Crime Plan and the liabilities for the defined benefit pension schemes. Other expenditure is incurred by the Chief Constable to fulfil the objectives set out by the PCC in the Police and Crime Plan. As the Chief Constable has operational control over this expenditure it is reasonable that these costs should be included in the Chief Constable's accounts. Depreciation is also included in the Chief Constable's accounts as management are of the view that it is a suitable proxy for the cost of the Chief Constable's use of the PCC's assets. This is a reasonable approach and will result in a fair value for the use of the assets being charged to the Comprehensive Income and Expenditure Account. The only exception to the above is expenditure related to the PCC directly, which has been appropriately included in Corporate and Democratic Core in the PCC's accounts. <p>Our testing to date of expenditure has not identified any instances of inappropriate recognition.</p>	

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - Pension fund liability	PCC and Chief Constable The Force is the administering authority for the 2015 New Police Pension Scheme, the 2006 New Police Pension Scheme (NPPS) and the 1987 Police Pension Scheme (PPS), all of which are unfunded, defined benefit schemes. The PCC and Force are admitted bodies of the Surrey Local Government Pension Scheme which is a funded, defined benefit scheme. The financial liability for these schemes appears on the Chief Constable's balance sheet and funded by an equal and opposite intra-group revenue from the PCC.	<p>We undertook a detailed review of the actuaries' work to satisfy ourselves that the police officer pension fund liabilities are fairly stated in the financial statements. In doing so, we engaged our own independent actuary to assess the methodology and assumptions used by the scheme actuaries.</p> <p>The value of the police officer pension fund liability is most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> • discount rate; • mortality; • inflation; and • future salary increases. <p>These factors and their impact on the pension fund liabilities have been adequately disclosed in the financial statements.</p>	●
Judgements and estimates - Assets	<p>Assets included in the Balance Sheet held at current value are revalued where there have been material changes in the value, or, as a minimum, every 5 years.</p> <p>The decision not to revalue these assets to their indexed valuation estimated at 31 March 2017 is considered a critical judgement</p>	<p>You hold both operational and residential land and buildings at current value. Management has decided to revalue operational properties during 2017/18. Residential properties were last revalued as at 31 December 2015.</p> <p>Management's decision not to revalue properties in the year is based on the percentage increases in property values provided by Burton Knowles. We have carried out our own assessment of potential movements in valuation of these assets by reference to professional market indices and concluded that this critical judgement is reasonable.</p>	●

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - Property plant and equipment - Pension fund liability	PCC The items in the Group's Balance Sheet at 31 March 2018 for which there is estimation uncertainty in the forthcoming financial year are as follows: <ul style="list-style-type: none"> Property, plant and equipment Pension fund liability Insurance claims liability Chief Constable The items in the Group's Balance Sheet at 31 March 2018 for which there is estimation uncertainty in the forthcoming financial year are as follows: <ul style="list-style-type: none"> Pension fund liability 	We highlight the following in relation to this area <ul style="list-style-type: none"> Sources of estimation uncertainty have been disclosed appropriately and adequately in note 3 of the PCC's accounts and in note 3 of the Chief Constable's accounts. 	●
Other critical policies		We have reviewed the PCC's and Chief Constable's policies against the requirements of the CIPFA Code of Practice. The PCC's and Chief Constable's accounting policies are appropriate and consistent with previous years.	●
		(Subject to the finalisation of our procedures as noted on page 3)	

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
1 Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents of significant fraud in the period from our discussions with management and those charged with governance and no other issues have been identified during the course of our audit procedures
2 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
3 Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4 Written representations	<p>Letters of representation have been requested from the PCC and the Chief Constable. A specific representation will be requested from the Chief Constable in respect of the following issue:</p> <ul style="list-style-type: none"> The fact that the Deputy Chief Constable is authorised by the Chief Constable to approve the Chief Constable's financial statements under section 41 of the Police Reform and Social Responsibility Act 2011.
5 Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation requests to HSBC. This permission was granted and the request was sent and returned with positive confirmation. We also obtained third party confirmation from Surrey County Council in relation to the PCC's cash balance which is held by Surrey County Council.
6 Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statements of Accounts, Annual Governance Statements (AGS) and Narrative Reports), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified. We plan to issue unqualified opinions in this respect</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> Work on the WGA consolidation has not yet been completed. We are aiming to complete this work by the end of July. The Group is below the NAO's threshold and so we are only required to carry out limited procedures.
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audits of Surrey PCC and Surrey Chief Constable at the same time as issuing the audit opinions.</p>

Value for Money

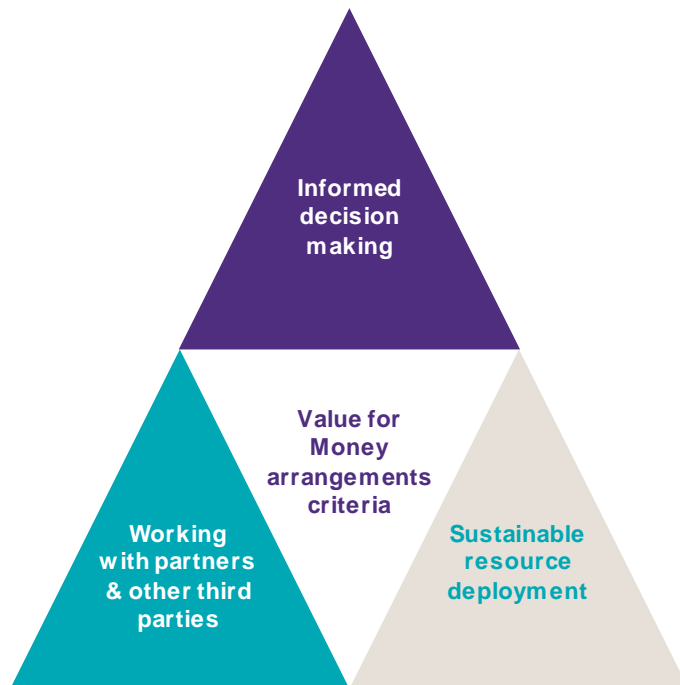
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for police bodies, auditors are required to give a conclusion on whether each of the PCC and Chief Constable has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below :



Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper [arrangements using the guidance](#) contained in AGN03. We communicated these risks to you in our Audit Plan in March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of each of the PCC and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in each of the PCC and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- Reviewing your medium term financial plan against our understanding of the sector and your circumstances.
- Work carried out by our internal programme management specialists to review the ERP implementation programme

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- Individually, the PCC and Chief Constable each had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Relevant to	Findings	Conclusion
1	<p>Medium term financial planning</p> <ul style="list-style-type: none"> The police funding settlement announcement made by the Policing Minister in December 2017, guaranteed flat government grant and allowed PCCs to increase precept by a maximum of £12 per year. This eases the impact on your forecast budget gap for the next two years. Your plans include changes and improvements in key areas of service delivery. You also need to deliver significant savings in order to achieve your updated budget proposal for 2018-19 and uncertainty remains over the longer term future of police funding. 	<ul style="list-style-type: none"> PCC and Chief Constable 	<ul style="list-style-type: none"> We reviewed your Medium Term Financial Plan (MTFP), including changes made in light of the recent settlement announcement and capital strategy. We assessed the reasonableness of the assumptions in your MTFP. You have included a consideration of the relevant national (government grants, precept raising powers, pay increase) and local (estates strategy, ICT strategy, retention investment) factors which impact you financially over the life of the plan. The additional precept raising facility is most beneficial to Surrey police, who have the highest gearing towards council tax in the country. There remain opportunities to apply to the Home Office for investment in transformation plans. However finances remain tight and need to be carefully managed in order to meet the demands placed on a modern police force (cyber crime, identity-theft, domestic abuse) as well as an increase in legacy cases and terrorism and time taken dealing with incidents that have dropped through the net of other public services. Funding also needs to be found for investment required in ICT and estates to make the force more efficient, as well as equipping officers and staff to tackle modern crime. Part of your response to these challenges has been to embed a new operating model, Policing in Your Neighbourhood (PiYN), where officers are trained to be omni-competent to increase their efficiency, flexibility to handle different types of crime and to enhance their job satisfaction. PiYN is part of your considerable focus on organisational culture. You have seen your efforts noted by the recent PEEL HMICFRS inspection, which rated Surrey as 'Good' in all areas. 	<p>Auditor view</p> <ul style="list-style-type: none"> You have a Medium Term Financial Plan in place which takes into account all relevant factors and has been put together using reasonable assumptions. Current identified savings are insufficient to meet your budget gap over the next four years. However a full savings plan has been identified for 2018/19 and officers are working to identify savings for 2019/20 and beyond. Investment in areas of concern highlighted in previous HMICFRS reports has resulted in improved performance which has been recognised by the inspectorate. You have ambitious plans in relation to estates and significant investment is required to address some legacy challenges in relation to ICT that need to be addressed in the short to medium term. It will be important that you are able to track the interdependencies between these areas and other areas of investment in terms of their impact on the operations of the force and your financial plans, particularly in relation to capital financing. It will also be essential that the benefits associated with these schemes are clearly identified at the outset and robustly monitored through to delivery.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Relevant to	Findings	Conclusion
1	<p>Medium term financial planning</p> <ul style="list-style-type: none"> The police funding settlement announcement made by the Policing Minister in December 2017, guaranteed flat government grant and allowed PCCs to increase precept by a maximum of £12 per year. This eases the impact on your forecast budget gap for the next two years. Your plans include changes and improvements in key areas of service delivery. You also need to deliver significant savings in order to achieve your updated budget proposal for 2018-19 and uncertainty remains over the longer term future of police funding. 	<ul style="list-style-type: none"> PCC and Chief Constable 	<ul style="list-style-type: none"> The analysis in your MTFP of the worst case scenario over the next four years shows a budget gap and therefore savings target of £16.1m. This scenario takes a pessimistic view of central government funding and local freedoms to increase precept from 2019/20 onwards. You have a good record of making savings and have used the HMICFRS Value for Money Profiles and worked with Sussex Police, South East Region forces and other Blue Light Services to develop a plan which has currently identified savings of £5.6m (£5.3m to be delivered in 2018/19 and £0.3m to be delivered in 2019/20). In the March 2018 version of your MTFP just over half of these savings schemes were rated as red. You are working on a new iteration of your MTFP in which you need to identify savings for future years to close the budget gap as well as factor in ICT costs which are currently not included beyond 2018/19. Your new MTFP will also need to align to the recently refreshed Police & Crime Plan for Surrey. 	<p>Auditor view</p> <ul style="list-style-type: none"> You have developed a prudent set of scenarios in respect of potential future funding. This is a sensible approach given the uncertainty about the future size and shape of police funding. <p>Taking the above information into account, we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements for informed decision making and sustainable resource deployment.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Relevant to	Findings	Conclusion
<p>2 ERP implementation programme</p> <ul style="list-style-type: none"> This programme has experienced significant slippage and Surrey Police has incurred costs in excess of those envisaged in the initial business case. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the governance and management of the programme are a barrier to the effective use of resources at both the PCC and Surrey Police. 	<ul style="list-style-type: none"> PCC and Chief Constable 	<ul style="list-style-type: none"> We used our internal project specialists to carry out interviews and review of documents to assess the implementation of the ERP. We identified six key areas which have the potential to become material risks to the delivery of the ERP programme. These areas are; Timeline, Resource, Business change, Data migration, Interdependencies and Decision making. We agreed with the overall green Programme status at the time of our review. 	<p>Auditor view</p> <p>Our review of the ERP programme has identified some significant risks to successful future delivery of the programme. However we are satisfied that the slippage experienced by the programme was not as a result of any significant deficiencies in the arrangements in place at Surrey Police. In addition, the programme remains in progress and management has demonstrated its commitment to respond robustly to our findings and work towards mitigating the risks identified.</p> <p>Accordingly, in considering the implications of this review on our VfM conclusion, the residual risk identified is not, in our view, material to the organisation or sufficiently widespread to result in any form of qualification to the VFM conclusion for 2017/18.</p>

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to each of the PCC and Chief Constable. No non-audit services were identified

Follow up of prior year recommendations

We identified the following issues in the audits of Surrey PCC's and Surrey Chief Constable's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Joint Audit Findings report. We have followed up on the implementation of our recommendations and noted progress below.

Assessment	Risk and recommendation previously communicated	Relevant to	Update on actions taken to address the issue
1 ✓	<ul style="list-style-type: none"> Surplus assets and assets held for sale should both be held at fair value and an assessment made each year about the need to revalue these assets. This assessment does not currently take place and there is potential for the assets to be materially misstated. Make an assessment of the need to revalue surplus assets held for sale each year 	<ul style="list-style-type: none"> PCC 	<p>Management has decided not to revalue surplus assets in the year as they have assessed, based on an indexation exercise carried out by the independent valuer's (Bruton Knowles) that the potential revaluation movement is not material.</p> <p>We have reviewed the valuer's indexation exercise and applied Gerald Eve indices to conclude that the potential movement is not material.</p>
2 X	<ul style="list-style-type: none"> Assets Under Construction and not revalued when brought into use. There is potential for assets to be materially misstated as a result. Revalue Assets Under Construction when they are brought into use 	<ul style="list-style-type: none"> PCC 	<p>Management advised that these assets under construction are not revalued when they are transferred to the completed categories. This is consistent with the prior year.</p> <p>Management have written a draft procedure which will require high value assets (land and buildings and intangibles) to be reviewed and potentially revalued in future.</p> <p>Given that the transfer from assets under construction to Property Plant & Equipment and Intangible assets is below our tolerable error at £1,828k, we are satisfied that even if all these asset values were overstated at the point of transfer, this would not cause a material misstatement in the accounts.</p>
3 X	<ul style="list-style-type: none"> There are a number of assets with zero net book value currently held on the asset register. The total gross book value of these assets is below £14m. While some of these assets may remain in use there are others which are obsolete and may be disposed of. Put in place a process to assess whether or not zero net book value items are still in use and write off those assets which are no longer in use. 	<ul style="list-style-type: none"> PCC 	<p>The process of reviewing zero net book value items and writing off those assets which are no longer in use is still ongoing. Progress has been made in the current year and management are satisfied that such assets are not causing a material misstatement on the balance sheet.</p> <p>Our disposals testing identified such de-recognitions, so we are aware that this exercise is continuing to take place.</p> <p>Our existence testing identified items with nil NBVs which management couldn't identify / prove existence of so this does continue to be an issue.</p>

Assessment

- ✓ Action completed
- X Action incomplete

Follow up of 2015/16 recommendations

We identified the following issues in the audits of Surrey PCC's and Surrey Chief Constable's 2015/16 financial statements, which resulted in three recommendations first reported to you in our 2015/16 Joint Audit Findings report. These recommendations were marked as not yet addressed in 2016/17. We have followed up on the implementation of our recommendations and noted progress below.

Assessment	Risk and recommendation previously communicated	Relevant to	Update on actions taken to address the issue
1 ✓	<ul style="list-style-type: none"> It was observed that there were 8 errors or omissions made in putting police house revalued amounts into the fixed asset register and accounts at the 2015/16 year end. This resulted in a total known understatement of PPE in the accounts totaling £335k. A full revaluation process should be undertaken between the valuer's work and the amounts shown in the accounts. Any differences should be identified and fully investigated. This work should be counter-reviewed by a separate Finance Team officer and signed as reviewed. 	<ul style="list-style-type: none"> PCC 	<p>Management has carried out a full revaluations process between the valuer's work and the amounts in the accounts.</p> <p>Our review of the revaluations work has not raised any issues around the completeness of the revaluations process. We have agreed the valuations reports in total to the fixed asset register and the draft accounts.</p>
2 ✓	<ul style="list-style-type: none"> It was observed that there were 5 pieces of land which were actively marketed by Estates but which had been omitted from the fixed asset register as accounts in error. These had a total estimated value (provided by Bruton Knowles) of £90k. The Finance Team should complete a regular reconciliation between the Fixed Asset register and the estates system, with variances being investigated and cleared in a timely manner. 	<ul style="list-style-type: none"> PCC 	<p>The Finance Team has completed a reconciliation between the Fixed Asset Register and the Estates System in the current year.</p> <p>Within our re-performance of this reconciliation, we have identified one variance of an asset on the Estates system which was not on the FAR. This was already identified as a variance on the reconciliation performed by the Finance Team. Therefore, we recommend that variances are cleared in a timely manner.</p>
3 X	<ul style="list-style-type: none"> It was observed that there were 7 police house assets over which there was some lack of agreement over the proportion of Surrey Police's extent of ownership. As a result, management had applied a judgement that due to uncertainty the prudent approach was to retain these assets at their prior historic cost / valuation. The CIPFA code guidance states that a revaluation should be applied to all assets within a classification. The extent of ownership of your assets should be agreed and any use of judgement clearly documented. 	<ul style="list-style-type: none"> PCC 	<p>Progress has been made on resolving these and there are now 5 police houses over which there is some lack of agreement over the proportion of Surrey Police's extent of ownership.</p> <p>We are satisfied from our testing that the ambiguity over the ownership of these assets does not cause a material misstatement in the accounts.</p>

Assessment

- ✓ Action completed
- X Action incomplete

Audit Adjustments – PCC

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of misstatements

There were no misstatements which impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Impact on total net expenditure
1 'Income for services provided by the Chief Constable' line created to split out revenue which has been derived by the Chief Constable (previously part of Intra-Group Funding Transfer)	DR income £10.2m CR expenditure £10.2m	zero	zero
Overall impact	£0	£0	£0

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Comprehensive Income and Expenditure Statement	<ul style="list-style-type: none"> New Net Cost of Services line created to include the Intra-Group Funding Transfer as part of Cost of Services. 	✓
Note 15 - Assets Held for Sale	<ul style="list-style-type: none"> Balance brought forward should be £495k per the prior year audited accounts 	✓
Note 30 - Financial instruments.	<ul style="list-style-type: none"> Loans and Receivables should be split to show the cash balance. 	✓
Note 31 - Exit Packages	<ul style="list-style-type: none"> Incorrect banding 	✓
Miscellaneous	<ul style="list-style-type: none"> Various minor typos, incorrect references and inconsistencies 	✓

Audit Adjustments – Chief Constable

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of misstatements

There were no misstatements which impact on the key statements and the reported net expenditure for the year.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Comprehensive Income and Expenditure Statement	<ul style="list-style-type: none"> 'Income' line renamed to 'Income for services provided by the Chief Constable' to be consistent with change to PCC financial statements. 	✓
Comprehensive Income and Expenditure Statement	<ul style="list-style-type: none"> New Net Cost of Services line created to include the Intra-Group Funding Transfer as part of Cost of Services. 	✓
Note 14 - Exit Packages	<ul style="list-style-type: none"> Incorrect banding 	✓
Note 14 - Officer Remuneration	<ul style="list-style-type: none"> Adjustment to number of employees from 492 to 482 	✓
Miscellaneous	<ul style="list-style-type: none"> Various minor typos, incorrect references and inconsistencies 	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Police and Crime Commissioner Audit	38,708	TBC
Chief Constable Audit	15,000	TBC
Total audit fees (excluding VAT)	£53,708	£TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The final fee has yet to be agreed pending agreement of fee variations by PSAA for work completed in relation to our review of the ERP programme.



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