

PART ONE

ITEM 07

To: Joint Audit Committee
Date: 10th June 2013
By: Paul Grady, Grant Thornton
Title: External Joint Audit Plan

Purpose of Report/Issue:

To present the 2013/14 external joint audit plan to Members. This includes the audit testing strategy, audit timetable and analysis of key risks for the financial statements audit and value for money conclusion.

Recommendations

The Committee is asked to consider, comment and note the 2013/14 external audit plan.

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The Joint Audit Plan for Surrey Police and Crime Commissioner and Chief Constable

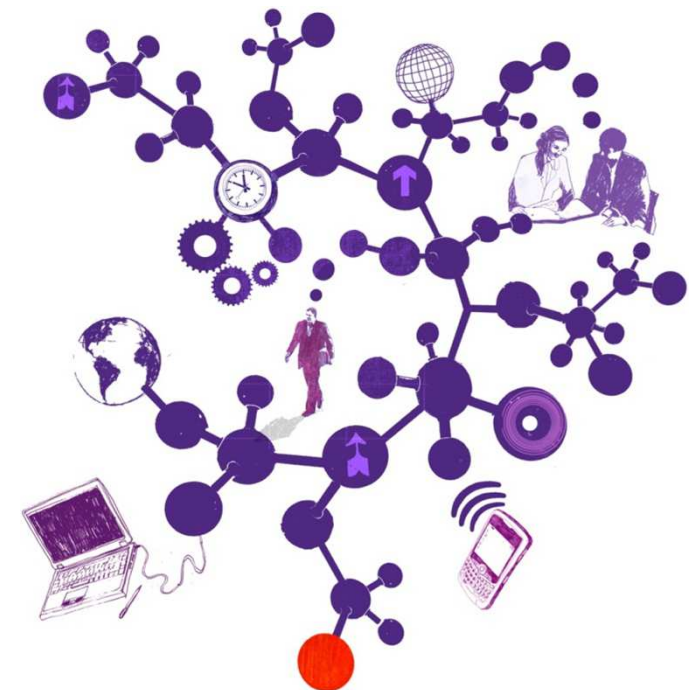
Year ended 31 March 2013

May 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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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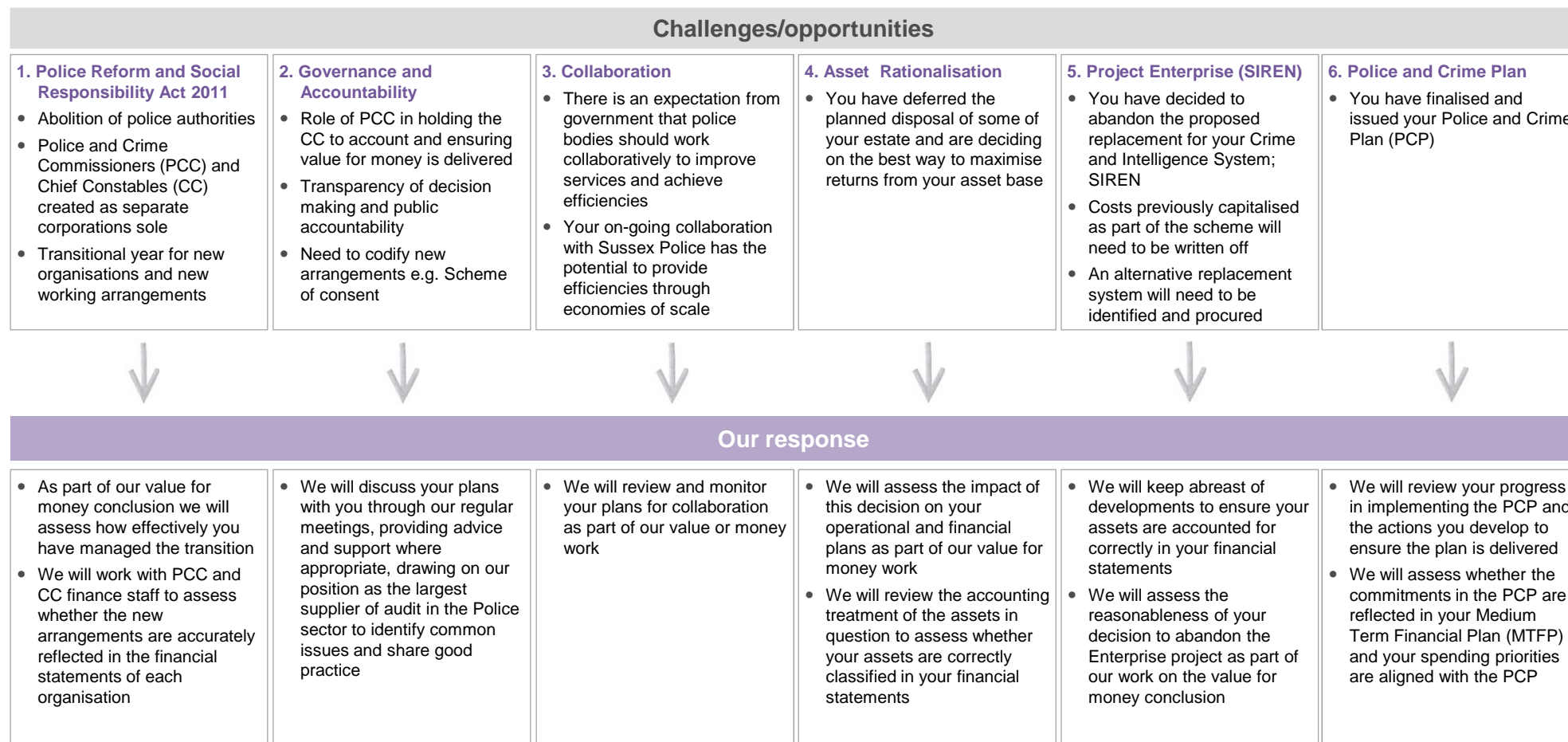
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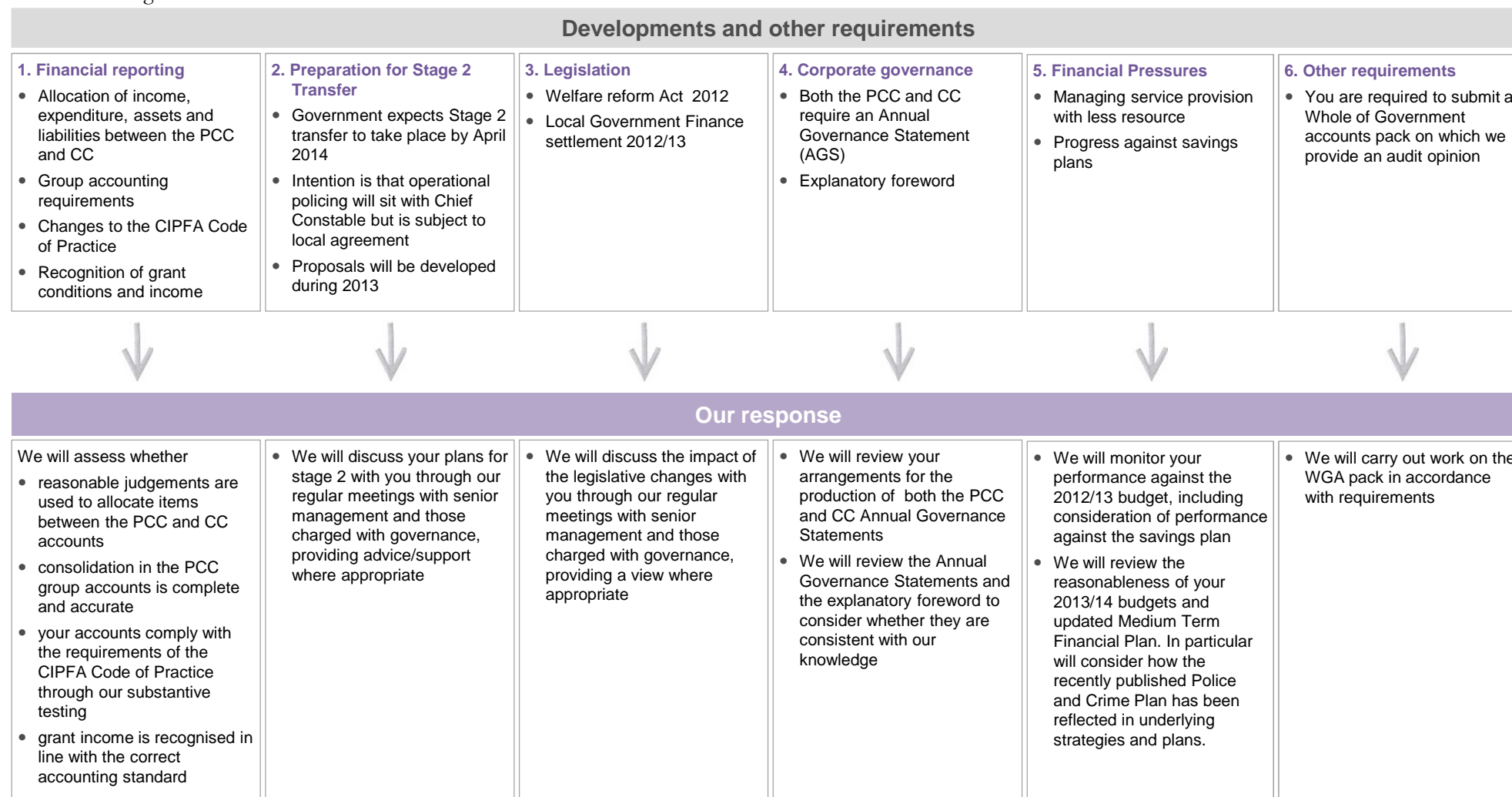
Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

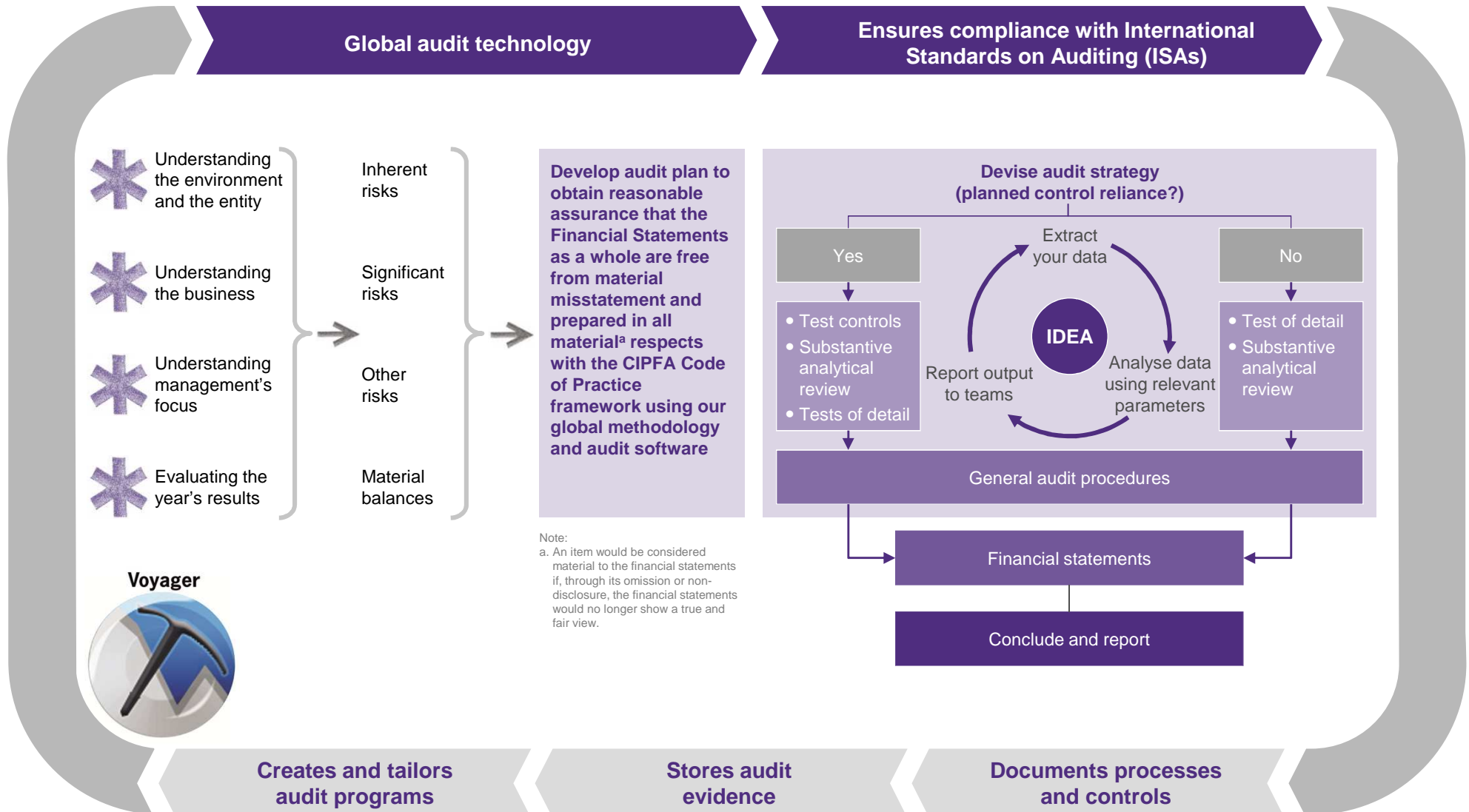


Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.



Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Relevant to? PCC/CC/Both	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Both	Operating expenses	Low	None		✓
Cost of services – employee remuneration	Yes	Both	Employee remuneration	Medium	Other	Employee remuneration accrual understated	✓
Cost of services – other revenues (fees & charges)	Yes	PCC/Both	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	PCC	Property, Plant and Equipment	Low	None		✓
Interest payable and similar charges	No	PCC	Borrowings	Low	None		✓
Pension Interest cost	Yes	PCC	Employee remuneration	Low	None		✓
Interest & investment income	No	PCC	Investments	Low	None		×
Return on Pension assets	Yes	PCC	Employee remuneration	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Relevant to? PCC/CC/Both	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Impairment of investments	Yes	PCC	Investments	Low	None		✓
Income from council tax	Yes	PCC	Council Tax	Low	None		✓
Revenue Support grant & other Government grants	Yes	PCC	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	PCC	Property, Plant & Equipment	Low	None		✓
(Surplus)/ Deficit on revaluation of non current assets	Yes	PCC	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	PCC	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	PCC	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	PCC	Property, Plant & Equipment	Low	None		✓
Heritage assets & Investment property	No	PCC	Property, Plant & Equipment	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Relevant to? PCC/CC/Both	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Intangible assets	No	PCC	Intangible assets	Low	None		×
Investments (long & short term)	Yes	PCC	Investments	Low	None		✓
Debtors (long & short term)	Yes	PCC	Revenue	Low	None		✓
Assets held for sale	Yes	PCC	Property, Plant & Equipment	Low	None		✓
Inventories	No	PCC	Inventories	Low	None		×
Cash & cash Equivalents	Yes	PCC	Bank & Cash	Low	None		✓
Borrowing (long & short term)	No	PCC	Debt	Low	None		×
Creditors (long & Short term)	Yes	PCC	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	PCC	Provision	Low	None		✓
Pension liability	Yes	PCC/Both	Employee remuneration	Low	None		✓
Reserves	Yes	PCC	Equity	Low	None		✓
Pension contributions receivable	Yes	CC	Pension Scheme Contributions	Medium	Other	Recorded contributions not correct	✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Relevant to? PCC/CC/Both	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Pension contributions receivable/benefits payable	Yes	CC	Pension Membership Data	Medium	Other	Actuarial amounts not determined properly	✓
Pension contributions receivable/benefits payable	Yes	CC	Pension Membership Data	Medium	Other	Member data not correct	✓
Pension contributions receivable/benefits payable	Yes	CC	Pension Membership Data	Medium	Other	Regulatory, legal and scheme rules/requirements not met	✓
Pension benefits payable	Yes	CC	Pension Scheme Benefits Payments	Medium	Other	Benefits improperly computed/ Claims liability understated	✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below. A third significant risk is presumed in respect of the accounting for the transition to PCC and CC:

Significant risk	Relevant to? PCC/CC/Both	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Both	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> Testing of revenue recognition policies Performance of attribute testing on material revenue streams
Management over-ride of controls	Both	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions
Accounting for the Transition to Police and Crime Commissioners	Both	The financial statements will need to account for the transfer of functions from abolished police authorities and reflect the new governance and accountabilities envisaged by the Act. The unusual circumstances and accounting judgements required increase the risk that material transactions are not accounted for in the most appropriate set of financial statements.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Initial discussions with management <p>Further work planned:</p> <ul style="list-style-type: none"> Further discussions with management Review of management's proposed accounting treatment and supporting evidence to confirm that they reflect the substance of arrangements rather than the legal form

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other risks	Relevant to? PCC/CC/Both	Description	Work completed to date	Further work planned
Operating expenses	Both	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues. However in the results of our interim audit work we have made one minor improvement point in relation to the process for Force Purchase Orders 	<ul style="list-style-type: none"> Substantive testing of creditor payments, including testing for correct treatment of payments either side of balance sheet date.
Employee remuneration	Both	Employee remuneration accrual understated	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding We have carried out attribute testing on 11 months of the year Our work to date has identified no significant issues. However in the results of our interim audit work we have made two minor improvement points in relation to payroll processes and controls 	<ul style="list-style-type: none"> Attribute testing for the final month of the year
Pension Contributions Receivable	CC	Recorded contributions not correct	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding We have carried out attribute testing on 11 months of the year Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Attribute testing for the final month of the year

Other risks (continued)

Other risks	Relevant to? PCC/CC/Both	Description	Work completed to date	Further work planned
Pensions Membership Data	CC	Actuarial amounts not determined properly	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD Agreement of information in the financial statements to actuarial reports provided by Hymans Robertson and GAD
Pensions Membership Data	CC	Member data not correct	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Review of the report on the internal controls of Xafinity Substantive testing of a sample of members
Pensions Membership Data	CC	Regulatory, legal and scheme rules/requirements not met	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Review of the report on the internal controls of Xafinity Review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD
Pensions Benefits Payable	CC	Benefits improperly computed/ Claims liability understated	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Review of the report on the internal controls of Xafinity Substantive testing on a sample of members

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. For accounting purposes the Chief Constable is considered a subsidiary of the Police and Crime Commissioner. As such the financial information of the CC is consolidated within the PCC group accounts. We will comply with the requirements of ISA 600 in carrying out our audit of the CC financial statements.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- attribute testing of employee remuneration over the first 11 months of the year
- journal entry controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the PCC and CC	Overall, we have concluded that the Internal Audit service is providing an independent and satisfactory service to the PCC and CC and that we can take assurance from their work in contributing to an effective internal control environment at both the PCC and CC.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These include employee remuneration, operating expenses, pension contributions receivable, pensions membership data and pensions benefits payable	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding. We noted three minor issues which we would like to bring to your attention <ul style="list-style-type: none"> • Force Purchase Order (FPO) invoices are not checked after being input into the system, creating a risk of over or underpaying individual invoices as the result of transposition errors. We are satisfied that the total expenditure cap on all FPOs provides a compensating control which mitigates the risk that this issue would result in a material error

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Walkthrough testing (contd.)		<ul style="list-style-type: none"> Net payroll reconciliations between the payroll and general ledger had not been performed up to December 2012. This increases the risk that prompt action is not taken to identify and address incomplete or inaccurate payroll data appearing in the general ledger. The reconciliation is cumulative in nature so provided it is brought up to date we will substantively test the year-end reconciliation to assess whether information has been accurately and completely transferred between the two systems during the period. Payroll benefits and taxes are calculated by the service organisation Logica. However there are no periodic checks carried out in finance to confirm these calculations are correct. In our view best practice would be to periodically evaluate and validate the accuracy of processing by Logica and independently check a sample of calculations.
Early substantive testing of employee remuneration	We have carried out substantive testing on 11 months of the payroll data	No issues have been identified from our testing to date.
Journal entry controls	We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the control environment or financial statements.	We will undertake detailed testing on journal transactions recorded throughout the financial year, using IDEA software to extract 'unusual' entries for further review

Value for Money

Introduction

The Code of Audit Practice requires us to issue conclusions on whether the PCC and CC have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion. We will issue conclusions for both bodies.

2012/13 VfM conclusion

The Audit Commission has determined that the two specified criteria for the VfM conclusion do not apply to Police Bodies Outside London. We are required to focus on the risks relating to the abolition of police authorities and the transition to the offices of the PCC and the CC, rather than giving a conclusion based on specified reporting criteria.

We will undertake a risk assessment against the areas identified in the Audit Commission's guidance and perform local risk based work where appropriate.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on your priority areas and can be used as a source of assurance for you.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting on a review-by-review basis.

Guidance

The Audit Commission guidance requires us to focus on transition and consider the following :

- governance arrangements
- local and national threats, service transformation and collaboration
- financial management
- assets and information management
- workforce management

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Review the decision to abandon Project Enterprise
- Review your financial performance and financial health in 2012/13
- Review the 2013/14 budget and Medium Term Financial Plan (MTFP)
- Assess whether the MTFP and budgets reflect changing circumstances and align with the Police & Crime Plan
- Review the adequacy of governance structures in place at the PCC and CC following transition
- Confirm that assets are properly registered in the name of Surrey PCC
- Comment on your transition to the PCC and the CC, assessing your performance against other Police bodies.

Logistics and our team

The audit cycle



Date	Activity
March 2013	Appointment of auditor. Planning commences
March 2013	Interim site work
June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
September 2013	Audit findings clearance meeting
10 September 2013	Audit Committee meeting to report our findings
By 30 September 2013	Sign financial statements and VfM conclusion
By 31 October 2013	Issue Annual Audit Letter

Our team

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Fees and independence

Audit Fees

	Fees £
Police and Crime Commissioner audit	57,000
Chief Constable audit	20,000
Total audit fees	77,000

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit has not changed significantly and proposed accounting treatments / sector guidance do not require significant additional audit work
- The activities of the PCC and CC have not changed significantly
- You will both make available management and accounting staff to help us locate information and to provide explanations
- The fee excludes additional work that may be required following your decision to abandon Project Enterprise.

Fees for other services

Service	Fees £
None	nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Police and Crime Commissioner and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the PCC and CC's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and CC to ensure that proper arrangements are in place for the conduct of their business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and CC are fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Force Purchase Order (FPO) invoices should be checked for accuracy after being input into the system.	Low	Agreed	July 2013 Finance Technical Lead
2	Net payroll reconciliations between the payroll and general ledger should be brought up to date and carried out on a monthly basis.	Medium	The net pay reconciliations were brought up to date in March and since then have been performed on a monthly basis.	March 2013 Financial Accounting Manager
3	Finance officers should carry out independent periodic sample checks to evaluate and validate the accuracy of payroll benefits and taxes calculations performed by Logica.	Low	Agreed	July 2013 Finance Technical Lead



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