

To: Joint Audit Committee
Date: 10th September 2013
By: Paul Grady, Audit Commission
Title: External Annual Audit Findings Report

Purpose of Report/Issue:

To provide members with a summary of the work carried out by the External Auditors during the 2012/13 audit of accounts.

Recommendations

The Committee is asked to consider, comment and note the contents of the Annual Findings Report.

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DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings Report for Surrey Police and Crime Commissioner and Surrey Chief Constable

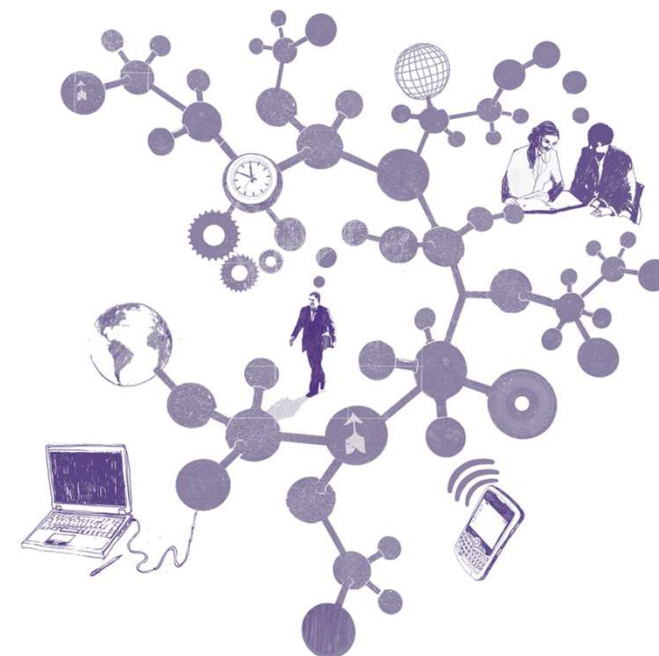
Year ended 31 March 2013

September 2013

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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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Executive summary

Background

The Police Reform and Social Responsibility Act 2012 created the post of Police and Crime Commissioner (PCC), a directly-elected official responsible for setting policing priorities and holding their local Chief Constable to account in delivering these, in 42 of the 43 police areas in England and Wales. The first elections were held on 15 November with elected PCCs taking office on 22 November 2012, replacing the police authority arrangements that had existed previously in each area.

The Act stipulates that both the PCC and Chief Constable for each police area be established as corporations sole, and as such both are required to prepare individual financial statements subject to audit under the Audit Commission Act 1998. In accordance with merger accounting principles, the PCC and the Chief Constable have prepared their financial statements for 2012/13 with effect from 1 April 2012.

Purpose of this report

As the external auditor appointed to both the PCC and the Chief Constable for Surrey we are required by the Audit Commission's Code of Audit Practice to report our audit findings to the PCC and the Chief Constable as the individuals charged with governance for the Office of the PCC and Surrey Police respectively. This report summarises the key findings and recommendations from our audits of both the PCC and the Chief Constable.

We report whether, in our opinion, the PCC's and Chief Constable's financial statements for the year ended 31 March 2013 present a true and fair view of the financial position, their expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We issue an audit opinion on the financial statements of the PCC and a separate audit opinion on the financial statements of the Chief Constable.

We also report whether the PCC and Chief Constable have both put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31 March 2013. This opinions are referred to as the Value for Money conclusion for each corporation sole entity. We issue separate conclusions for the PCC and the Chief Constable based on our assessment of the arrangements each has established.

Status of our work

Our audit is substantially complete. We are finalising our work in the following area and our audit is subject to the satisfactory resolution of these matters:

- finalisation of responses to our residual queries on the financial statements and your accounting treatment in relation to: (a) the event after the balance sheet date in respect of Siren; (b) Property, Plant and equipment; and (c) assets held for sale
- final quality assurance and completion processes
- receipt and review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events reviews, to the date of signing the opinions
- auditing the Whole of Government Accounts submission

In addition, we are nearing the completion of our review of the Siren project and the decision by the PCC to terminate the scheme. This matter is unlikely to impact materially on our opinion on your financial statements but will be relevant to our Value for Money conclusion.

Executive summary

Key messages - Financial statements opinions

We expect to issue unqualified opinions on both the PCC's financial statements, including the group financial statements, and the Chief Constable's financial statements by 30 September.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. In the conduct of our audits we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in May 2013.

The draft financial statements adopted the "reserves approach" to accounting for the transition and liabilities arising under IAS19. This approach complies with the guidance that has been issued by CIPFA and the underlying accounting standards. In our view it represents best practice in accounting for the new arrangements and appropriately reflects their substance rather than the legal form.

The finance team has managed the accounting for the transition to PCCs well. Officers have been keen to engage with us throughout the process and have demonstrated their commitment to account for and present transactions in compliance with professional accounting standards in a consistent and clear manner. As a result there have been very few adjustments between the draft and final financial statements which relate to the accounting treatment that has been adopted. This is commendable when considering the context of this year's audit: a complicated and challenging set of accounting circumstances, with minimal guidance available in how to apply the accounting standards to the unique arrangements in the police sector.

Those changes to the financial statements which do relate to the accounting for the transition to the PCC are matters of presentation rather than points of accounting principle.

Police and Crime Commissioner

Our audit identified three adjustments in the PCC's financial statements which resulted in amendments to the figures disclosed in the primary statements. We have also agreed amendments for a small number of presentation, disclosure and classification issues. Management has agreed to action all our suggested amendments in the final version of the financial statements with the exception of the accounting treatment of the annual leave accrual. This has been accounted for as a liability in the PCC's balance sheet. In our view, this should instead be included in the Chief Constable's balance sheet, as it is a liability arising from the employment of staff under the direction and control of the Chief Constable. However, this matter is not material to either organisation's financial statements and, at group level, the issue ceases to exist. None of the adjustments we have identified change the reported financial performance for the year for either organisation.

Chief Constable

Our audit identified one adjustment to the primary statements which management has agreed to make in the Chief Constable's financial statements. They have also agreed amendments for a small number of presentation, disclosure and classification issues. As noted above, there is one adjustment relating to the treatment of the annual leave accrual for which management has not amended the accounts. None of the adjustments we have identified affect the reported financial performance for the year and we are satisfied that the unadjusted error does not result in a material misstatement of the Chief Constable's financial statements.

We have included further details of our financial statements audit findings, including details of the adjustments to both financial statements referred to above, in section 2 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Executive summary

Key messages – Value for Money Conclusions

We report whether each of the PCC and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31 March 2013. This is referred to as the Value for Money conclusion. We issue separate conclusions for the PCC and the Chief Constable based on our assessment of the arrangements each has established.

In April 2013 the PCC made the decision to terminate the Siren development. This resulted in the write off of a substantial sum of project development costs which had been incurred to date over the life of the development. As part of our audit we commenced a review of the decision to terminate which, necessarily, includes a detailed review of the governance of the scheme itself from inception. We are nearing the completion of our review of the Siren project and the decision to terminate the scheme. As this work forms part of the considerations which inform our Value for Money conclusion, at the date of drafting this report we are unable to confirm whether our conclusion is likely to be unmodified. Key messages and the impact of these on our Value for Money conclusion will be discussed with the PCC and Chief Constable prior to our issuing the conclusions for each organisation.

We have set out further details of the findings and recommendations from the work supporting our Value for money conclusion in section 3 of this report.

Internal control

The PCC and the Chief Constable are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control for each of their organisations.

Management across the two organisations has operated a common set of financial systems and controls to produce both sets of financial statements for 2012/13.

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 any control weaknesses, we report these to you. We draw your attention in particular to control issues identified in relation to:

- weaknesses in the process for authorisation of journals
- the ineffectiveness of processes introduced to identify impairment of assets
- a number of minor control issues arising from our IT audit review

Further details are provided within section 2 of this report.

The way forward

The findings and recommendations contained in this report have been discussed and agreed with the Chief Finance Officers (CFOs) for both organisations and the Chief Executive of the Office of the PCC. The findings and recommendations contained in this report will also be discussed with the PCC and the Chief Constable, as the individuals charged with overall governance for the Office of the PCC and Surrey Police respectively, before they approve the financial statements for their respective organisations.

We have made recommendations in this report and have summarised these in the joint action plan in Appendix A.

Acknowledgment

We would like to thank management, finance staff and other officers in both the office of the PCC and Surrey Police for their assistance over the course of this year's audits.

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

Audit of the financial statements

In this section of the report we present our findings in respect of our audits of both the PCC's and Chief Constable's financial statements, including our conclusions in respect of the significant audit risks and other audit risks we reported to the PCC and the Chief Constable in our joint Audit Plan. We have summarised our audit findings against each entry in the financial statements in more detail at Appendix E.

We have not made any changes to our Audit Plan reported to you previously

Audit opinion

Subject to the satisfactory resolution of the outstanding audit work summarised below, we expect to issue an unqualified opinion on both sets of financial statements by the statutory deadline of 30 September 2013.

Status of audit work

Our audit is substantially complete. We are finalising our work in the following area and our audit is subject to the satisfactory resolution of these matters:

- finalisation of responses to our residual queries on the financial statements and your accounting treatment in relation to: (a) the event after the balance sheet date in respect of Siren; (b) Property, Plant and equipment; and (c) assets held for sale
- final quality assurance and completion processes
- receipt and review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events reviews, to the date of signing the opinions
- auditing the Whole of Government Accounts submission

Should any significant matters arise from the resolution of the outstanding matters we will report these to the PCC and Chief Constable before finalising the audit.

Accounting changes arising from the Police Reform and Social Responsibility Act 2012

This has been a challenging year for police finance teams, who have needed to invest considerable time and effort preparing separate financial statements for the PCC and for the Chief Constable which reflect developing local governance and working arrangements and emerging accounting guidance. In addition, group accounts have also been required under the new arrangements. We recognise this has not been an easy task.

The CFOs of both organisations have worked closely with one another, and the finance team to understand the nature of developing governance and joint working arrangements and how these should be accounted for. There has been limited guidance provided during the year and much confusion throughout the sector in respect of how to account for the new arrangements in their first year. In this respect many of the decisions made about accounting treatment have been incremental and have required police bodies to keep an open-minded and flexible approach to how best to present things in their financial statements.

This type of approach has been clearly evident at the Office of the PCC and Surrey Police this year. Management at both organisations should be commended on their approach to this throughout the year, as well as the depth of thought applied to their accounting treatment to ensure it reflects accurately the new arrangements and is compliant with extant accounting standards. The finance team has met and overcome the challenges of accounting for new and unusual arrangements against a back drop of reduced resources and capacity. That they were able to produce materially accurate financial statements across two organisations, on time and in addition to group accounts, should be regarded as a considerable achievement this year.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. A third significant risk is presumed in respect of the accounting for the transition. The findings set out below are subject to the satisfactory resolution of the outstanding matters detailed earlier in this report.

	Risks identified in our audit plan	Relevant to? PCC/CC/Both	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	Both	<p>Both PCC and Chief Constable audits</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • Performance of testing on material revenue streams 	<p>PCC audit</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>Chief Constable audit</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management override of controls</p>	Both	<p>Both PCC and Chief Constable audits</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>PCC audit</p> <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues in respect of this risk. We have, however, made recommendations to improve the robustness of controls in respect of journal authorisation and filing.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> <p>Chief Constable audit</p> <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues in respect of this risk. We have, however, made recommendations to improve the robustness of controls in respect of journal authorisation and filing.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against significant risks

	Risks identified in our audit plan	Relevant to? PCC/CC/Both	Work completed	Assurance gained and issues arising
3.	<p>Accounting for the Transition to Police and Crime Commissioners</p> <p>The financial statements 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 increased the risk that material transactions would not be accounted for in the most appropriate set of financial statements.</p>	Both	<p>Both PCC and Chief Constable audits</p> <ul style="list-style-type: none"> 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 	<p>PCC and Chief Constable audit</p> <p>Our audit work has not identified any significant issues in respect of the risk identified.</p> <p>The draft financial statements adopted the "reserves approach" to accounting for the transition and the liabilities arising under IAS19. In our view this approach represents best practice in accounting for the new arrangements and appropriately reflects their substance rather than the legal form. We did identify some minor issues which we have discussed with management of both organisations.</p> <p>The leave accrual (£0.6m) has been accounted for on the PCC's balance sheet rather than being matched to employee remuneration costs in the Chief Constable's accounts. However, this does not have a material impact on either set of financial statements.</p> <p>During the audit we discussed and agreed some presentation improvements in the financial statements. The more significant of these are as follows:</p> <ul style="list-style-type: none"> the columns in the PCC and group CIES are now presented to show the gross expenditure and income against the Police Objective Analysis required by the CIPFA code. the presentation of transfers between the general reserve and the pension reserve in the Chief Constable's MiRs are shown as movements between reserves rather than as adjustments between accounting and funding basis. the Chief Constable's pension reserve should be presented as an unusable reserve in the group MiRs Note 2 (Key Judgements) now reflects the key judgements applied in accounting for transition, including the decision to adopt merger accounting. These judgements were not contained within the original draft accounts.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A. These findings are subject to the satisfactory resolution of the outstanding matters outlined earlier in this report.

Transaction cycle	Relevant to: PCC/CC/Both	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Both	Creditors understated or not recorded in the correct period	<p>PCC and Chief Constable audits</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding Substantive testing of creditor payments, including testing for correct treatment of payments either side of the balance sheet date. 	<p>PCC audit</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Chief Constable audit</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Employee remuneration	Both	Employee remuneration accrual understated	<p>PCC and Chief Constable audits</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding Attribute testing of payslips, to ensure employees are being paid as per their contracts, the correct deductions are applied and this information is correctly represented in the accounts. 	<p>PCC audit</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Chief Constable audit</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Pension Contributions Receivable	Chief Constable	Recorded contributions not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding Attribute testing of payslips, to ensure the correct contributions are applied and correctly represented in the accounts. 	<p>PCC audit</p> <p>N/A</p> <p>Chief Constable audit</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)


Transaction cycle	Relevant to? PCC/CC/Both	Description of risk	Work completed	Assurance gained & issues arising
Pensions Membership Data	Chief Constable	Actuarial amounts not determined properly	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding 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 	<p>PCC audit N/A</p> <p>Chief Constable audit Our audit work has not identified any significant issues in relation to the risk identified.</p>
Pensions Membership Data	Chief Constable	Member data not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding Review of the report on the internal controls of Xafinity Substantive testing of a sample of members 	<p>PCC audit N/A</p> <p>Chief Constable audit Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

Transaction cycle	Relevant to? PCC/CC/Both	Description of risk	Work completed	Assurance gained & issues arising
Pensions Membership Data	Chief Constable	Regulatory, legal and scheme rules/requirements not met	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding 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 	<p>PCC audit N/A</p> <p>Chief Constable audit Our audit work has not identified any significant issues in relation to the risk identified.</p>
Pensions Benefits Payable	Chief Constable	Benefits improperly computed/ Claims liability understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough testing to confirm that controls are implemented as per our understanding Review of the report on the internal controls of Xafinity Substantive testing of a sample of members 	<p>PCC audit N/A</p> <p>Chief Constable audit Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within the financial statements.


Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Revenue recognition	Both	<p>PCC</p> <ul style="list-style-type: none"> • Accruals concept for both capital and revenue. Debtors are included in 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 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 . 	<p>PCC audit</p> <ul style="list-style-type: none"> • The accruals concept and method of grant recognition are appropriate policies under the LG Code of Practice. • Any income to the Group initially flows to the PCC. It is within the control of the PCC to use this income as he sees fit. Therefore it is reasonable to include Non Current and Current Debtors on the PCC's balance sheet. • Revenue has initially been recognised in the PCC's CIES and is then shown to be transferred to the CC to match expenditure. This income is mainly made up of grants, which will be made directly to the PCC, and so is it reasonable to adopt this recognition policy. <p>Chief Constable audit</p> <ul style="list-style-type: none"> • The CIES shows intra group funding. The Code 2.1.2.26 – defines income as "the gross inflow 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 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 income/revenue and the financial statements therefore correctly include a CIES and follow the code requirements in terms of format and content. 	 Green

Assessment



- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient

- **Amber** – Accounting policy appropriate but scope for improved disclosure.

Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Cost recognition	Both	<p>PCC</p> <ul style="list-style-type: none"> The cost of an item of PPE is capitalised when the asset will benefit the Group for more than a year, and the cost of the item can be measured reliably. The accounts reflect the normal accruals concept for expenditure. Creditors are included within the Balance Sheet for goods and services supplied but not paid for at the year end. <p>Chief Constable</p> <ul style="list-style-type: none"> Costs are recognised when they fall due. Trade creditors are not recognised in the CC accounts as the PCC controls the treasury function. Costs are recognised in the Chief Constable's Accounts to reflect the PCC's resources consumed in the direction and control of day-to-day policing at the request of the Chief Constable 	<p>PCC audit</p> <ul style="list-style-type: none"> Management consider the PCC to be in control of physical and intangible assets, as it is the PCC's decision whether to buy or sell these assets. This is reasonable given that the PCC has direct control over who can use these assets. In addition the risk and reward is directly linked to the PCC given that he controls decisions about when and how to buy and sell assets. <p>Chief Constable audit</p> <ul style="list-style-type: none"> Management have decided to include police officer and police staff employee remuneration in the Chief Constable's CIES. In substance the Chief Constable has direct operational control of police officers and police staff and so is the employer for accounting purposes. This means that it is appropriate to recognise the full costs of employment for delivering the Police and Crime Plan and the associated liability for the pension element of those costs. Other expenditure is incurred by the Chief Constable to fulfil the objectives set out 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 CC's accounts. Depreciation is also included in the CC's accounts as management are of the view it is a suitable proxy for the Chief Constable's use of the PCC's assets. This is a reasonable argument and will result in a fair charge being made to the CIES. 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 accounts. 	 Green

Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Judgements and estimates	Both	<p>Both</p> <p>The key estimates and judgements in 2012/13 relate to recognition of working capital balances and non-current assets and liabilities across the PCC and CC accounts.</p> <p>Non Current Liabilities are held in the CC balance sheet. Non Current Liabilities are exclusively made up of the Pension liability. Management have taken the decision to recognise police payroll expenditure in the CC's accounts and they argue that the retirement benefit that they are accruing by working for the CC should also be included in the CC's accounts.</p> <p>Management have recognised the IAS19 pension costs and pensions liability in the CC Accounts. As it is not possible at present to apply the statutory over-ride in the CC Accounts this has resulted in negative usable reserves on the CC and Group Balance Sheets.</p>	<p>PCC audit</p> <ul style="list-style-type: none"> • Management have decided to include all working capital balances (cash, current debtors and current liabilities) in the PCC accounts. • As the PCC controls the treasury management function and all bank accounts it follows that the PCC should recognise all working capital balances. Therefore the treatment of working capital balances is reasonable. • Management have complied with Regulation 30 (Capital Finance and Accounting Regs 2003) by ensuring the Council tax payer is only charged the actual costs of pension contributions by charging these though the PCC's CIES instead of the actuarial costs required by IAS19. <p>Chief Constable audit</p> <ul style="list-style-type: none"> • The treatment of pension costs is consistent with the argument that the Chief Constable is benefitting from the day to day activities of police officers and staff. Management has decided not to split the liability to include pension arrangements for the PCC and PCC staff in the PCC accounts as they do not consider them to be material in the context of the PCC accounts. This is reasonable given the very small percentage of employees who are directly under the PCC's control. • CIPFA's briefing note suggests that a useable pension reserve can be used in the Chief Constable accounts but be ignored when considering going concern and the overall financial position. This is the treatment that has been adopted in the accounts for the Chief Constable. 	 Green
Other accounting policies	Both	<p>PCC and Chief Constable</p> <ul style="list-style-type: none"> • We have reviewed the Police and Crime Commissioner's and the Chief Constable's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> • Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	 Green

Adjusted misstatements – Police and Crime Commissioner financial statements

Our audit identified three adjustments to the PCC's draft financial statements which management has agreed to correct. We are required to report all non-trivial misstatements to the PCC, and whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit of the PCC's accounts which management has agreed to amend. The PCC is also required to prepare group accounts consolidating the activities of the PCC and Chief Constable entity financial statements. Adjustments to the group accounts are included here..

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on financial position £'000
<p>1 The finance team identified an adjustment to the financial statements in respect of the prior year accumulated absences accrual . This had not been reversed in the Chief Constable's CIES causing the deficit on provision of services and intra-group funding to be overstated by £662k.</p> <p>The intra-group funding in the PCC statements was reduced by £662k. The entry is reversed through the MiRS in the PCC accounts meaning the Adjustments between Accounting Basis and Funding Basis under Regulations line was also overstated by £662k meaning there was no impact on the reported financial position.</p> <p>The finance team also decided to move the accrual from provisions to creditors during the course of the audit</p>	<p>Intra-group funding 662</p> <p>Adjustments between accounting basis and funding basis under regulations (662)</p> <p>0</p>	<p>0</p> <p>Provisions 662</p> <p>Creditors (662)</p>	<p>0</p>
<p>2 Two neighbouring properties were revalued prior to their reclassification as Assets Held for Sale. The properties had been grouped and given a combined value by the valuers in their 2009 report. However this combined value was incorrectly applied to each asset resulting in an overstatement of the Revaluation Reserve and Assets Held for Sale</p>	<p>0</p>	<p>Revaluation Reserve 767</p> <p>Assets Held for Sale (767)</p>	<p>0</p>

Adjusted misstatements – Police and Crime Commissioner financial statements

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on financial position £000
3 The Draft financial statements included a prior period adjustment moving amounts from Assets Under Construction in Property Plant and Equipment to Assets Under Construction in Intangible Assets. The CIPFA Code and underlying financial reporting standards do not permit the classification of intangible assets as assets under construction.	0	Intangible Assets at 1/4/11 (7,600) Property Plant and Equipment at 1/4/11 7,600	0
Overall impact	£0	£0	£0

Adjusted misstatements – Chief Constable financial statements

Our audit identified 1 adjustment to the Chief Constable's draft financial statements. We are required to report all misstatements to the Chief Constable, and whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit of the Chief Constable's financial statements which management has agreed to amend.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on financial position £000
1 The finance team identified an adjustment to the financial statements in respect of the prior year accumulated absences accrual. This had not been reversed in the CIES causing the deficit on provision of services and intra-group funding to be overstated by £662k.	Net cost of services (662) Intra-group funding 662	0	0
Overall impact	£0	£0	£0

Misclassifications & disclosure changes – Police and Crime Commissioner financial statements

In the table below we set out details of misclassification and disclosure changes to the PCC's financial statements, including the group consolidation, we identified during the audit and which management has agreed to adjust.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure/ Misclassification	£1,472,900	Pension Reserve	On consolidating the Chief Constable's financial statements in to the group the Pension Reserve was moved from a useable reserve to an unusable reserve, effectively applying the statutory override in the group position. Management had engaged us with early discussion on this point prior to preparing the financial statements and we had not challenged the approach. During the audit, as part of the iterative process of clarifying and refining accounting treatment in these unique arrangements, it became clear there were no effective accounting or statutory grounds for moving a reserve from useable to unusable reserves on consolidation. In light of this it was agreed that management would show the Pension Reserve as an unusable reserve in the final version of the group financial statements. It should be noted that parliament has signalled its intention to adopt legislation to permit the application of the statutory overrides within the Chief Constables accounts as soon as parliamentary time allows.
2 Disclosure	N/a	MiRs	The draft financial statements did not included a prior year comparator for the Movement in Reserves.
3 Disclosure	Various	Cash flow statement	Cash flow statement comparator balances were different from prior year figures in two cases; causing the statement to not cast. Current year cash flow statement contained non-cash items which were removed.
4 Disclosure	10,900	Post balance sheet events Note 3	The Events After the Balance Sheet Date disclosure in respect of Siren did not meet minimum disclosure requirements as it did not include details about the potential value and impact of the event.
5 Misclassification	7,600	Property, Plant and Equipment Note 9	Assets reclassified (to)/from Held for Sale line was incorrect as it included a transfer of AHFS back into PPE following disposal. Such a transfer is not permitted by the Code.

Misclassifications & disclosure changes – Police and Crime Commissioner financial statements (continued)

In the table below we set out details of misclassification and disclosure changes to the PCC's financial statements, including the group consolidation, we identified during the audit and which management has agreed to adjust.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
6 Misclassification	2,000 & 3,000	Financial Instruments Note 12	Council tax creditors (£2m) and Council tax debtors (£3m) have been removed from Note 12 as they are not financial instruments.
7 Disclosure	N/a	Related Party Transaction	The related party disclosures have been enhanced to include an explanation of the group relationship between the PCC and Chief Constable.
8 Presentation	N/a	CIES	We asked management to change the order of the columns in the PCC and group CIES so that the statement more clearly presented gross income and expenditure against the Police Objective Analysis required by the Code.
9 Presentation/ Disclosure	N/a	Various	A number of minor adjustments were agreed to improve presentation and improve compliance with disclosure requirements.

Misclassifications & disclosure changes – Chief Constable financial statements

In the table below we set out details of misclassification and disclosure changes to the Chief Constable's financial statements we identified during the audit and which management has agreed to adjust.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	59,100	MiRS	The MiRS in draft financial statements included an adjustment between accounting basis and funding basis under regulations. As the Chief Constable is not a local authority for accounting purposes there was no grounds for this adjustment and we agreed that management would show the movement between the General Reserve and the Pension Reserve as a transfer to earmarked reserves in the final version of the financial statements.
2 Disclosure	N/a	MiRS	The draft financial statements did not include a prior year comparator for the Movement in Reserves.
3 Disclosure	Various	Amounts reported for resource allocation decisions Note 22	Amounts reported for resource allocation decisions in the draft financial statements did not reconcile to CIES
4 Disclosure	N/a	Related Party Transaction	The related party disclosures have been enhanced to include an explanation of the group relationship between the PCC and Chief Constable.
5 Presentation/ Disclosure	N/a	Various	A number of minor adjustments were agreed to improve presentation and improve compliance with disclosure requirements.

Unadjusted misstatements - Police and Crime Commissioner financial statements

In the table below we set out details of the adjustment identified during the audit which management has not made in the final set of the PCC's financial statements. We have reported these to the PCC to consider and approve management's reasons for not adjusting before approving the financial statements. We are satisfied the overall impact of the error below is not material to the financial statements in totality.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 The PCC financial statements include the liability for accumulated absences. As this liability relates to staff costs which are recognised in the CC's CIES the associated liability should also be recognised in the CC's Balance Sheet	Intra-group funding (£660)	Short Term Creditors £660	Management do not consider this adjustment has a material impact on the financial statements
Overall impact	(£660)	£660	

Unadjusted misstatements – Chief Constable financial statements

In the table below we set out details of adjustments identified during the audit which management have not made in the final set of the Chief Constable's financial statements. We have reported these to the Chief Constable and to the PCC where the errors below impact on the PCC's group accounting statements to consider and approve management's reasons for not adjusting before approving the financial statements. We are satisfied the overall impact of the error below is not material to the financial statements in totality.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 The PCC financial statements include the liability for accumulated absences. As this liability relates to staff costs which are recognised in the Chief Constable's CIES the associated liability should also be recognised in the Chief Constable's Balance Sheet	Intra-group funding £660	Short Term Creditors (£660)	Management do not consider this adjustment has a material impact on the financial statements
Overall impact	£660	(£660)	

Internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to the PCC and to the Chief Constable in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the joint action plan attached at Appendix A.

	Assessment	Relevant to? PCC/CC/ Both	Issue and risk	Recommendations
1.	● Amber	Both	Journal Authorisation <ul style="list-style-type: none"> Your journal authorisation process is a manual process, with the 'authoriser' signing hard copy documentation after the journal has been entered and posted on to the financial system. Our testing of your journals identified 15 journals which had not been appropriately authorised. Whilst none of these resulted in material misstatement there is a risk that a fraudulent or erroneous journal could be uploaded to the ledger without being detected by management. The filing of journals is inconsistent and increases the risks that journals are not subject to appropriate review. Hardcopies can easily be misplaced / forgotten as the current system is for the creator to place a hardcopy of the journal on the Finance Manager's desk. Given the number of adjustment journals produced the current system also places a heavy workload on the Finance Manager. 	<ul style="list-style-type: none"> You should consider the feasibility of adding or enabling electronic authorisation of journals within the financial system. Alternatively management may want to carry out periodic spot checks of the authorisation process by comparing a sample from a sequential listing of journals from the general ledger to appropriately authorised hardcopy documentation.

Assessment

● **Red** – Significant deficiency – risk of significant misstatement

● **Amber** -- Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Relevant to? PCC/CC/ Both	Issue and risk	Recommendations
2.	● Amber	Both	IT Audit <ul style="list-style-type: none"> Our IT audit has identified four recommendations with regard to the key systems used by staff within the Office of the PCC and Surrey Police Management have responded to these recommendations and we will monitor their progress as part of our audit in 2013/14 	<ul style="list-style-type: none"> Staff who have Database Administrator level access should not use generic logon ids and each should be allocated a unique identifier to enable an audit trail to be created permitting accountability. An Intrusion Detection System (IDS) and/or an Intrusion Prevention System (IPS) device should be implemented to strengthen network perimeter controls. Management should implement the password complexity or strong passwords settings on both the network and main Cedar Oracle financial system. Network failed attempts before lockout should be no more than 5 attempts We recommend that a process is implemented to periodically review the access rights granted to Cedar Oracle financials system. The review should address the appropriateness of access rights in relation to the users' job roles and responsibilities, with due consideration being given to adequate segregation of duties

Assessment

● **Red** – Significant deficiency – risk of significant misstatement

● **Amber** -- Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Relevant to? PCC/CC/ Both	Issue and risk	Recommendations
3.	● Amber	PCC	Impairment Review <ul style="list-style-type: none"> Following recommendations made during last year's audit the finance team introduced a process for obtaining management assurances regarding any potential impairment of assets during the year. The team asked relevant departments to complete a return confirming whether there were any assets which should be considered for the purposes of impairment. However only one response was received from the officers contacted. 	<ul style="list-style-type: none"> The impairment review of non-current assets should be carried out annually and where responses are not received, appropriate escalation measures should be introduced to ensure responses are received.

Assessment

- **Red** – Significant deficiency – risk of significant misstatement
- **Amber** – Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to the PCC and to the Chief Constable before we conclude our audits.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with those charged with governance and been made aware of no actual or alleged frauds during the year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the PCC and from the Chief Constable. In particular, representations will be requested from the Treasurer at the PCC and the Head of Finance at Surrey Police in respect of the reasons for not amending the financial statements for the unadjusted items identified on pages 25 and 26.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the PCC's and the Chief Constable's decisions to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the PCC and the Chief Constable have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements. The result of this work is the Value for Money conclusion, which we give separately based on our assessment of each body's arrangements.

We have undertaken our audits in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following for both bodies:

- our review of the annual governance statements
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities
- our locally determined risk-based work which is set out in the table on the following pages

Overall Value for money conclusions

We are nearing the completion of our review of the Siren project and the decision to terminate the scheme. As this work forms part of the considerations which inform our Value for Money conclusion, at the date of drafting this report we are unable to confirm whether our conclusion is likely to be unmodified.

Key messages and the impact of these on our Value for Money conclusion will be discussed with the PCC and Chief Constable prior to our issuing the conclusions for each organisation.

Key Messages

Our key messages in respect of the other risks, identified in our audit plan in May 2013, are set out in the table on the following pages.

Value for money risk assessment

To support our Value for money conclusions for the PCC and for the Chief Constable we completed a risk assessment against the value for money risk indicators specified by the Audit Commission. We have summarised the risks to our Value for money conclusions we identified and the work we have undertaken in response.

Residual Risk identified	Residual risk for? PCC/CC/Both	Assurances obtained	Conclusion on residual risk
Review the decision to terminate the Siren contract	Both	<ul style="list-style-type: none"> Our work in this area is on-going and we are not in a position to share indicative findings at this stage. 	We are unable to conclude on the level of residual risk or the potential impact on our VfM conclusion at this stage.
Review your financial performance and financial health in 2012/13	Both	<ul style="list-style-type: none"> We have assessed your financial performance in 2012/13 	Overall your financial performance in 2012/13 was strong. You underspent by £1m against your budget of £208.8m, which included savings of £7.2m. The underspend against budget has allowed you to increase your general fund balance to £9.4m, making your level of reserves 4.5% when compared to the annual gross budget. This is in line with your policy of keeping reserves at a minimum of 3% of your gross budget and gives you the flexibility to deal with one off items of demand, pump prime invest to save schemes and also manage any slippage in phasing of your cost improvement programmes. Overall your financial position in the short term appears sound.
Follow up the recommendation made last year and confirm that assets are properly registered in the name of Surrey PCC	PCC	<ul style="list-style-type: none"> As part of our work on the financial statements we have agreed a sample of assets back to deeds or information held at the land registry. All assets were appropriately registered in the name of the PCC. 	The prior year recommendation has been addressed and we are satisfied that all significant assets are appropriately registered in the name of the PCC.

Value for money risk assessment

To support our Value for money conclusions for the PCC and for the Chief Constable we completed a risk assessment against the value for money risk indicators specified by the Audit Commission. We have summarised the risks to our Value for money conclusion we identified and the work we have undertaken in response.

Residual Risk identified	Residual risk for? PCC/CC/Both	Assurances obtained	Conclusion on residual risk
<p>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</p>	<p>Both</p>	<ul style="list-style-type: none"> • We have reviewed your budget the medium term financial plans including assumptions made • We have reviewed your arrangements for identifying and delivering savings plans • We have reviewed your progress against savings plans and the adequacy of future plans • We have considered HMIC's report "Surrey Police's response to the funding challenge" 	<p>Your MTFP is a live document and is updated regularly during the year, not just at the budget setting phase. The latest iteration extends the financial planning horizon to 2018/19 and the end of the next spending review period. The regular updates of the MTFP allow you to reflect changing circumstances. The key assumptions are made clear in the plan and appear reasonable. They are also subject to sensitivity and scenario planning which is used to develop a "realistic" or 'most likely' scenario.</p> <p>Whilst there is no explicit link to the Police and Crime Plan our view based on discussions with officers at the PCC and Surrey Police is that there is a good shared understanding of the financial risks faced in the short to medium term and how these can be best managed without impacting on the overall delivery of the six priorities in the Police and Crime Plan.</p> <p>HMIC have commented positively on your progress and your future plans in relation to closing your funding gap between now and the end of the current spending review in 2015/16.</p> <p>You have made good progress in managing your financial risks and minimising the impact that savings plans have on service delivery. HMIC highlight that you have been successful in doing this in a way very few other forces have been able to achieve. You are one of only four forces in England and Wales where the number of police officers in frontline roles is planned to increase, and the only force in which the total number of police officers will increase over the spending review period.</p> <p>Your approach to managing change is strategic, well managed and monitored.</p>

Value for money risk assessment

To support our Value for money conclusions for the PCC and for the Chief Constable we completed a risk assessment against the value for money risk indicators specified by the Audit Commission. We have summarised the risks to our Value for money conclusion we identified and the work we have undertaken in response.

Residual Risk identified	Residual risk for? PCC/CC/Both	Assurances obtained	Conclusion on residual risk
Review the adequacy of governance structures in place at the PCC and CC following transition	Both	<ul style="list-style-type: none"> We have reviewed your high level governance structures and key documents We have attended the joint audit committee meetings this year We have reviewed decisions and records of meetings available on both websites 	<p>In our view you have responded well to the challenges posed by the move to PCCs and put in place suitable governance arrangements during the year.</p> <p>The work done prior to the election of the PCC helped to streamline the transition process and ensured that much of the key governance framework was in place as soon as the PCC started his role.</p> <p>This sound base has allowed the governance and transparency agenda to develop rapidly in Surrey. You have established a joint audit committee which meets quarterly. Whilst it has only met twice to date it is already showing signs of being able to provide both the necessary level of assurance and effective challenge to the PCC and Chief Constable.</p> <p>Regular management meetings take place between the PCC and the Chief Constable. Papers for these meetings are made available on the PCC's website and the meetings themselves are webcast.</p> <p>There is a joint transition board in place which is continuing to manage the residual risks in respect of transition, in particular your plans for stage 2.</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

The determination of the final fee will be dependent on the costs of our work to review the decision to cancel the Siren IT project as part of our considerations in respect of the VFM conclusion and our assessment of the need to exercise statutory powers under the Audit Commission Act 1998.

Fees

	Per Audit plan £	Actual fees £
Police and Crime Commissioner Audit	57,000	TBC
Chief Constable Audit	20,000	TBC
Total audit fees	77,000	TBC

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 each of the financial statements.

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to the Police and Crime Commissioner and to the Chief Constable

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 PCC's and the 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 Council's key risks when reaching our conclusions under the Code.

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

	Audit Plan	Audit Findings
Our communication plan		
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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Joint 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	<ul style="list-style-type: none"> You should consider the feasibility of adding or enabling electronic authorisation of journals within the financial system. Alternatively management may want to carry out periodic spot checks of the authorisation process by comparing a sample from a sequential listing of journals from the general ledger to appropriately authorised hardcopy documentation. 	Medium		
2	<ul style="list-style-type: none"> The impairment review of non-current assets should be carried out annually and where responses are not received, appropriate escalation measures should be introduced to ensure responses are received. 	Medium		

Appendix B: Audit of the PCC – draft auditor's report

We expect to issue an unqualified opinion on the PCC's financial statements. We include our draft audit report for your consideration below.

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR SURREY

Opinion on the financial statements

We have audited the financial statements for the Police and Crime Commissioner for Surrey for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Police and Crime Commissioner Single Entity and Group Movement in Reserves Statement, the Police and Crime Commissioner Single Entity and Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner Single Entity and Group Balance Sheet, the Police and Crime Commissioner Single Entity and Group Cash Flow Statement and the related notes and include the police pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Police and Crime Commissioner for Surrey in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Police and Crime Commissioner Single Entity and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Appendix C: Audit of the PCC – draft auditor's report (continued)

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Police and Crime Commissioner to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

WE WILL UPDATE THIS SECTION UPON THE CONCLUSION OF OUR WORK ON SIREN.

Appendix C: Audit of the PCC – draft auditor's report (continued)

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the Police and Crime Commissioner has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission *in November 2012*, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work on the SIREN IT Project, your financial performance and financial health and your arrangements to transition from the former Police Authority to the Office of the Police and Crime Commissioner and Office of the Chief Constable.

WE WILL UPDATE THIS SECTION UPON THE CONCLUSION OF OUR WORK ON SIREN.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of your decision to terminate the SIREN IT Project. We are satisfied that these matters do not have a material effect on the financial statements.

Paul Grady

Engagement Lead

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

xx September 2013

Appendix C: Audit of the Chief Constable – draft auditor's report

We expect to issue an unqualified opinion on the Chief Constable's financial statements We include our draft audit report for your consideration below.

INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE SURREY

Opinion on the financial statements

We have audited the financial statements of the Chief Constable Surrey for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the police pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Chief Constable for Surrey in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Appendix D: Audit of the Chief Constable – draft auditor's report (continued)

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Chief Constable to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

WE WILL UPDATE THIS SECTION UPON THE CONCLUSION OF OUR WORK ON SIREN.

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the Chief Constable has put in place such arrangements.

Appendix D: Audit of the Chief Constable – draft auditor's report (continued)

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission *in November 2012*, we have considered the results of the following:

our review of the annual governance statement;
the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
our locally determined risk-based work on the SIREN IT Project, your financial performance and financial health and your arrangements to transition from the former Police Authority to the Office of the Police and Crime Commissioner and Office of the Chief Constable.

WE WILL UPDATE THIS SECTION UPON THE CONCLUSION OF OUR WORK ON SIREN.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of your decision to terminate the SIREN IT Project. We are satisfied that these matters do not have a material effect on the financial statements.

Paul Grady

Engagement Lead

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

xx September 2013

Appendix D: Overview of audit findings

In this section we present our findings in respect of the matters and risks to our audits of the PCC's and of the Chief Constable's financial statements we identified at the planning stage of the audit and any additional matters that arose subsequently during the course of the audit. The findings are subject to the satisfactory resolution of the outstanding matters noted earlier in the report.

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Both	Operating expenses	None	Material balance so testing required but no specific risk identified..	No	Audit testing confirmed operating expenses are fairly stated.
Cost of services – employee remuneration	Both	Employee remuneration	Other	Employee remuneration accrual understated	No	Audit testing confirmed that the employee remuneration accrual is fairly stated.
Cost of services – other revenues (fees & charges)	Both	Other revenues	None	Material balance so testing required but no specific risk identified..	No	Audit testing confirmed other revenues are fairly stated.

Audit findings

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Gains)/ Loss on disposal of non current assets	PCC	Property, Plant and Equipment	None	Immaterial balance	No	The value of gains/ losses on disposal of non-current assets is below a level we deem material so only limited audit testing was carried out. No errors noted.
Interest payable and similar charges	PCC	Borrowings	None	Immaterial balance	No	No interest payable.
Pension Interest cost	PCC	Employee remuneration	None		No	Audit testing confirmed that the pension interest cost is fairly stated
Interest & investment income	PCC	Investments	None	Immaterial balance.	No	The value of investment income is below a level we deem material so only limited audit testing was carried out. No errors noted.
Return on Pension assets	PCC	Employee remuneration	None		No	Audit testing confirmed that the return on pension assets figure is fairly stated.
Impairment of investments	PCC	Investments	None	Immaterial balance.	No	The value of impairment of investments is below a level we deem material so only limited audit testing was carried out. No errors noted.
Income from council tax	PCC	Council Tax	None		No	Audit testing confirmed that income from council tax is fairly stated

Audit findings

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Revenue support grant and other Government grants	PCC	Grant Income	None		No	Audit testing confirmed that the RSG and other Government grants are fairly stated
Capital grants & Contributions (including those received in advance)	PCC	Property, Plant & Equipment	None		No	Audit testing confirmed that Capital grants and Contributions are fairly stated
(Surplus)/ Deficit on revaluation of non current assets	PCC	Property, Plant & Equipment	None		No	Audit testing found that the surplus on revaluation of non current assets was not fairly stated. See page 18 for detail.
Actuarial (gains)/ Losses on pension fund assets & liabilities	PCC	Employee remuneration	None		No	Audit testing confirmed that the actuarial loss on pension fund assets and liabilities is fairly stated
Other comprehensive (gains)/ Losses	PCC	Revenue/ Operating expenses	None		No	There are no other comprehensive gains or losses.
Property, Plant & Equipment	PCC	Property, Plant & Equipment	None		No	Audit testing found that intangible assets were incorrectly classified in the PCC balance sheet and the note. See page 20 for detail.
Heritage assets & Investment property	PCC	Property, Plant & Equipment	None		No	Audit testing confirmed that Heritage assets are fairly stated.
Intangible assets	PCC	Intangible assets	None		No	Audit testing found that intangible assets were incorrectly classified in the PCC balance sheet and the note. See page 20 for detail.

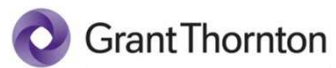
Audit findings

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Investments (long & short term)		Investments	None		No	Audit testing found that investments (part of cash & cash equivalents) are fairly stated.
Debtors (long & short term)		Revenue	None		No	Audit testing found that debtors are fairly stated.
Assets held for sale		Property, Plant & Equipment	None		No	Audit testing found that AHFS were not fairly stated. See page 18 for more detail.
Inventories		Inventories	None		No	No inventories disclosed
Cash & cash equivalents		Bank & cash	None		No	Audit testing found that cash & cash equivalents)are fairly stated.
Borrowing (long & short term)		Debt	None	Immaterial balance	No	Neither the PCC nor the CC has any borrowing.
Creditors (long & Short term)		Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Audit testing found that creditors are fairly stated.
Provisions (long & short term)		Provision	None		No	Management reclassified the Accumulated Absences provision . See page 20 for more detail.
Pension liability		Employee remuneration	None		No	Audit testing found that the pension liability is fairly stated.
Reserves		Equity	None		No	Audit testing found that reserves are fairly stated.

Audit findings

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Police Officer Pension Fund contributions receivable	Chief Constable	Pension Scheme Contributions	Other	Recorded contributions not correct	No	Audit testing found that Police Officer Pension Fund contributions receivable are fairly stated.
Police Officer Pension Fund contributions receivable/benefits payable	Chief Constable	Pension Membership Data	Other	Actuarial amounts not determined properly	No	Audit testing found that Police Officer Pension Fund actuarial amounts are determined properly
Police Officer Pension Fund contributions receivable/benefits payable	Chief Constable	Pension Membership Data	Other	Member data not correct	No	Audit testing found that Police Officer Pension Fund member data is correct
Police Officer Pension Fund contributions receivable/benefits payable	Chief Constable	Pension Membership Data	Other	Regulatory, legal and scheme rules/requirements not met	No	Audit testing found that Police Officer Pension Fund regulatory, legal and scheme rules / requirements are met
Police Officers Pension Fund benefits payable	Chief Constable	Pension Scheme Benefits Payments	Other	Benefits improperly computed/ Claims liability understated	No	Audit testing found that Police Officer Pension Fund benefits are properly computed and claims liability is fairly stated

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