

To: Joint Audit Committee
Date: 16th December 2013
By: Paul Grady, Grant Thornton
Title: External Audit Management Letter

Purpose of Report/Issue:

To present to the Committee the 2012/13 Annual Audit Letter. The Annual Audit Letter pulls together the key messages from external audit work in 2012/13.

Recommendations

The Committee is asked to consider, comment and note the Annual Audit Letter.

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The Annual Audit Letter for Surrey Police and Crime Commissioner and Chief Constable

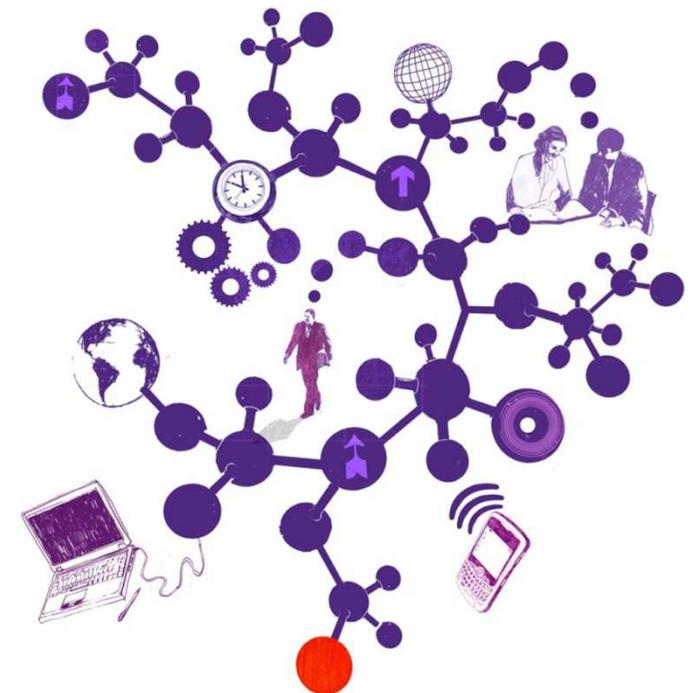
Year ended 31 March 2013

October 2013

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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at the Office of the Police and Crime Commissioner for Surrey (PCC) and the Chief Constable for Surrey Police (Chief Constable) for the year ended 31 March 2013:

- auditing the 2012/13 accounts for the PCC and Chief Constable and Whole of Government Accounts submission for the PCC (Section two) and
- assessing the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (Section three).

The Letter is intended to communicate key messages to the PCC and Chief Constable and external stakeholders, including members of the public. We reported the detailed findings from our audit work to the PCC in the Audit Findings Report on 17 September 2013 and to the Chief Constable in the Audit Findings Report on 24 September 2013.

Responsibilities of the external auditors, the PCC and the Chief Constable

This Letter 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).

The PCC and Chief Constable are each responsible for preparing and publishing their own accounts, with each set of accounts accompanied by a separate Annual Governance Statement. They are also each responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources (Value for Money) in their respective organisations.

Our annual work programme for each body, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the joint Audit Plan that we issued on 03 April 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions that we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the financial position of the PCC as at 31 March 2013 and the income and expenditure for the year
- an unqualified opinion on the accounts which give a true and fair view of the financial position of the Chief Constable as at 31 March 2013 and the income and expenditure for the year
- in respect of the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources, we reported the following matter: Our findings in relation to the SIREN IT project raised questions about the effectiveness of the arrangements for project management, governance and producing information to support decision making. We are considering whether any further action is required under the Audit Commission Act 1998.

The PCC was below the £300 million audit threshold set by the National Audit Office (NAO) for Whole of Government Accounts and therefore a full audit was not required. We issued the short form assurance statement to the NAO by the 4 October deadline.

Executive summary

Key areas for the PCC and Chief Constable's attention

We summarise here the key messages arising from our audit for the PCC and Chief Constable to consider as well as highlighting key issues facing the PCC and Chief Constable in the future.

PCC

The key issue arising this year, which was nationally debated, has been where to account for pension costs and liabilities. The draft financial statements adopted the "reserves approach" to accounting for the transition and pension liabilities arising under IAS19. This approach complied with the guidance that was issued by CIPFA and the underlying accounting standards. In our view it represented best practice in accounting for the new arrangements and appropriately reflected their substance rather than the legal form, as required under International Financial Reporting Standards.

Our audit identified three adjustments in the PCC's financial statements which resulted in amendments to the figures disclosed in the primary statements. We also agreed amendments for a small number of presentation, disclosure and classification issues. Management corrected all of our suggested amendments in the final version of the financial statements with the exception of:

- accounting treatment of the annual leave accrual; and
- accounting treatment of assets held for sale

Further detail can be found in Section 2 of this letter: Audit of the Accounts

Chief Constable

As noted for the PCC, the key issue arising this year was where to account for pension costs and liabilities. The Chief Constable's draft accounts included the day to day costs of employing officers and staff as well as the pension liability arising under IAS19. In our view the treatment represented best practice in accounting for the new arrangements and appropriately reflected the substance of the transactions rather than their legal form, as required under International Financial Reporting Standards.

Management corrected all of our suggested amendments in the final version of the Chief Constable's financial statements with the exception of the accounting treatment of the annual leave accrual

Further detail can be found in Section 2 of this letter: Audit of the Accounts

Acknowledgements

This Letter has been agreed with the joint Chief Finance Officer and will be presented to the Audit Committee on 16 December 2013.

We would like to record our appreciation for the constructive working relationships and assistance and co-operation provided to us during our audit by the PCC's and Chief Constable's management and staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The PCC and the Chief Constable both presented us with draft accounts by 30 June 2013, in accordance with the deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 8 July 2013 as planned. The financial statements and majority of working papers were of a good standard. Requests for additional working papers were responded to promptly, as were requests for explanations.

Issues arising from the audit of the accounts

The finance team managed the accounting for the transition to PCCs well. Officers were keen to engage with us throughout the process and 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 were 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 in this first year of account to the unique arrangements in the police sector.

Issues for the PCC

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.

Management agreed to action all our suggested amendments in the final version of the financial statements with the exception of :

- accounting treatment of the annual leave accrual; and
- accounting treatment of assets held for sale

The annual leave accrual is accounted for as a liability in the PCC's balance sheet. In our view, this should instead have been 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.

The financial statements included an incorrect application of the accounting treatment required by the CIPFA Code for assets being reclassified as Held for Sale. This resulted in the following misstatements:

- Assets Held for Sale were overstated by £2,500k
- The Revaluation Reserve was overstated by £900k
- Other operating expenditure in the CIES and the Capital Adjustment Account were understated by £1,600k

If adjusted both misstatements would have reduced net assets in the balance sheet by £940k. However as both transactions would be reversed to unusable reserves via the Movement in Reserves Statement they would not have had an impact on the reported financial position for the year.

Audit of the accounts

Issues for the Chief Constable

Our audit identified one adjustment to the Chief Constable's primary statements which management agreed to correct. Management also agreed amendments for a small number of presentation, disclosure and classification issues in the notes to the accounts. As noted above, there was also one omission relating to the treatment of the annual leave accrual for which management did not amend the accounts.

None of the adjustments we identified affected the reported financial performance for the year and we were satisfied that the unadjusted error did not result in a material misstatement of the Chief Constable's financial statements.

Annual governance statement

The two annual governance statements were in line with our understanding of the PCC's and Chief Constable's governance arrangements and were consistent with the elements suggested in the Delivering Good Governance in Local Government Framework.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' i.e. the PCC and the Chief Constable. Our Audit Findings Report was discussed with the PCC on 17 September 2013 and Chief Constable on 24 September 2013. We summarise only the key messages in this Letter and have not repeated our detailed considerations and messages in respect of other matters arising during the audit, including matters in relation to, for example, journals, key judgements and other detailed matters. Further information can be found in our Audit Findings Report.

We issued an unqualified opinion on the PCC's 2012/13 accounts and an unqualified opinion on the Chief Constable's 2012/13 accounts on 28 September 2013, ahead of the deadline set out in the Accounts and Audit Regulations.

Our opinions confirm that the accounts give a true and fair view of the Group's, PCC's and the Chief Constable's financial position respectively and of the income and expenditure recorded by each of them.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

Value for Money

Scope of work

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 issue 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 detailed risk assessment
- our review of the SIREN IT project.

As part of our risk assessment we considered governance arrangements; local and national threats; service transformation and collaboration; financial management; assets and information management and workforce management.

Key findings for the PCC

Overall the financial performance in 2012/13 was strong. The PCC underspent by £1m against a budget of £208.8m, which included savings of £7.2m.

The PCC's Medium Term Financial Plan (MTFP) is a live document which 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 PCC's approach to managing change is strategic, well managed and monitored. In our view the organisation has responded well to the challenges posed by the move to elected PCCs and put in place suitable governance arrangements during the year.

The governance and transparency agenda is developing rapidly in Surrey. The PCC and Chief Constable have established a joint audit committee which meets quarterly.

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.

In April 2013 the PCC made the decision to terminate the SIREN IT project. 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 undertook a review of the decision to terminate which, necessarily, included a detailed review of the governance of the scheme itself from inception. Our findings raised questions over the effectiveness of the arrangements for:

- project management;
- governance; and
- producing information to support decision making

Value for Money

Key findings for the Chief Constable

Overall the financial performance in 2012/13 was strong. The Chief Constable underspent by £1m against a budget of £208.8m, which included savings of £7.2m.

The Chief Constable's MTFP is a live document which 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 Chief Constable's approach to managing change is strategic, well managed and monitored. In our view the organisation has responded well to the transition from the Police Authority and put in place suitable governance arrangements during the year.

The governance and transparency agenda is developing rapidly in Surrey. The PCC and Chief Constable have established a joint audit committee which meets quarterly.

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.

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- project management;
- governance; and
- producing information to support decision making

Overall VFM conclusions

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we concluded that there was the following matter to report as part of our VFM conclusions for both bodies:

Our findings in relation to the SIREN IT project raised questions about the effectiveness of the arrangements for:

- project management;
- governance; and
- producing information to support decision making

We are currently considering whether any further action is required under the Audit Commission Act 1998 in response to these findings.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and that there were no non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit fee - PCC	57,000	TBC
Audit fee – Chief Constable	20,000	TBC
Total fees	77,000	TBC

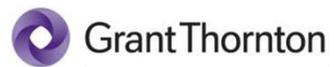
Fees for other services

Service	Fees £
None	Nil

The final fee will be discussed and agreed with the PCC and Chief Constable. All fees under the Audit Commission Act 1998, including the above, are subject to final determination by the Audit Commission.

Reports issued

Report	Date issued
Audit Plan	April 2013
Audit Findings Report	September 2013
Annual Audit Letter	October 2013



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