

PART ONE

ITEM 07

To: Joint Audit Committee
Date: 24th March 2014
By: Kathryn Sharp, Grant Thornton
Title: External Audit Update

Purpose of Report/Issue:

This paper provides the Joint Audit Committee with a report on progress in delivering Grant Thornton's responsibilities as the external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to both the Police and Crime Commissioner and Chief Constable.

Recommendations

The Committee is asked to consider, comment and note the report.

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Joint Audit Committee Update for Surrey Police and Crime Commissioner and Surrey Chief Constable

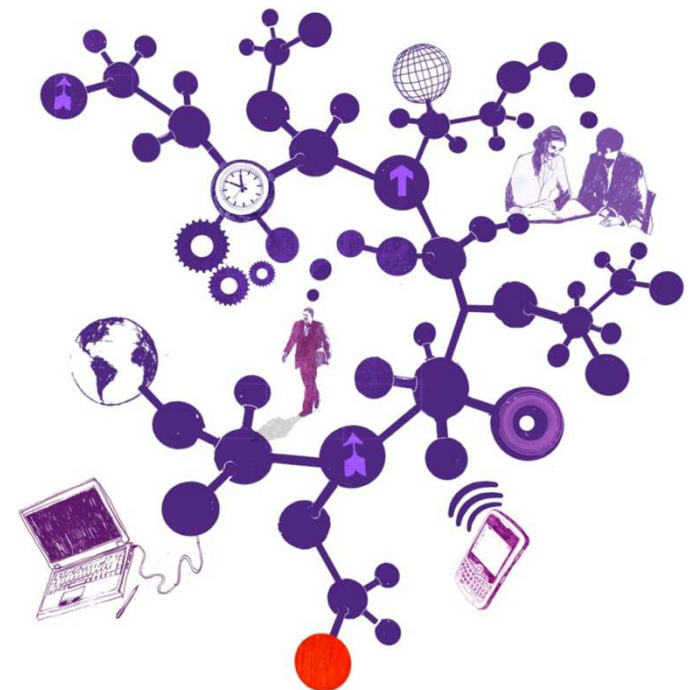
Year ended 31 March 2014

24 March 2014

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Introduction

This paper provides the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Police and Crime Commissioner and Chief Constable.

Members of the Joint Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', '2016 tipping point? Challenging the current,' 'Alternative delivery models in local government', 'The migration of public services', 'The developing internal audit agenda'.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 24 March 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner's and Chief Constable's 2013-14 financial statements.</p>	March 2014	In Progress	Our Accounts Audit Plan has been drafted and will be discussed with the Police and Crime Commissioner and Chief Constable before being presented to the Joint Audit Committee.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February 2014	Yes	We have completed our interim accounts audit and our findings have informed our draft Accounts Audit Plan.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Police and Crime Commissioner's and Chief Constable's accounts • proposed Value for Money conclusion. 	July 2014	No	

Progress at 24 March 2014

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion To inform the 2013/14 VfM conclusion we will assess whether: <ul style="list-style-type: none">• The Police and Crime Commissioner and Chief Constable have proper arrangements in place for securing financial resilience• The Police and Crime Commissioner and Chief Constable have proper arrangements for challenging how they secure economy, efficiency and effectiveness.	July 2014	No	
2014/15 fee letter The Audit Commission plans to publish the 2014/15 scale fees at the end of March 2014. Once these have been confirmed, we will issue our fee letters to the Police and Crime Commissioner and Chief Constable.	April 2014	No	
Review of SIREN IT project We have drafted our report and it is currently out for consultation with the Police and Crime Commissioner and Chief Constable.		In progress	

Emerging issues and developments

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- the PCC/Chief Constable will take responsibility for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- the PCC/Chief Constable will be required to establish an auditor panel which must advise the PCC/Chief Constable on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Emerging issues and developments

Grant Thornton

2016 tipping point? Challenging the current

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future. Although the report is based on local authorities, the findings also apply to police bodies

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Emerging issues and developments

Grant Thornton

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government, including police, clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Emerging issues and developments

Grant Thornton

Cyber security

Cyber security is an increasingly hot topic in the public sector. Over the last few months, there have been several high profile web security breaches, affecting both the public and private sectors which have been widely reported in the media.

In August 2013, a local authority's website was attacked and defaced by the 'Anonymous' group. No underlying data was lost in the incident but there was a significant financial cost to rebuilding the website. As a result, the council's website was taken offline for eight days. The same group also targeted other government websites in the UK and overseas.

A council's data security arrangements are only as strong as the weakest link in the organisation. Effective cyber security needs to be owned by the whole organisation and not seen exclusively as an information technology problem.

Grant Thornton could help as we have experience in advising, consulting and leading on major security initiatives for high profile organisations. If you have any queries, talk to your Engagement Lead or Audit Manager.

Emerging issues and developments

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a police body will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the police body's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Emerging issues and developments

HMIC

'Valuing the police' inspections

Her Majesty's Inspectorate of Constabulary (HMIC) is undertaking a further programme of its 'Valuing the Police' inspections in 2014, focusing on the efficiency and effectiveness of police forces as they respond to the challenges of the comprehensive spending review.

HMIC has previously published four national reports on this subject: Valuing the Police (published in 2010), Adapting to Austerity (2011), Policing in Austerity - One Year On (2012), Policing in Austerity – Rising to the challenge (2013), and a further linked report Demanding Times. These reports and the findings from the 2013 inspections are available from the HMIC website.

The 2014 phase of the programme, known as VtP4, will look again at forces' progress in responding to the spending review but with a greater focus on the overall efficiency of their response to date, the impact for the public, preparations for future funding reductions and the management of current and future risk. The programme of work will include data collection, public survey and force inspections, leading to an assessment of the effectiveness of forces' response and future risk. The findings of the inspections will be published in the summer of 2014, with individual force reports and a national thematic report.

The fieldwork phase of the inspections will be undertaken between 24 March 2014 and 23 May 2014. The fieldwork inspection will be conducted over two days and will include interviews with chief officer leads for finance, change, human resources, performance and focus groups with staff. A detailed timetable of the individual inspections will be available in February.

The findings of individual inspections are likely to be relevant to auditors' work on the VFM conclusion, particularly in relation to the criterion on financial resilience. HMIC is therefore extending an invitation to attend the strategic review meeting with each force finance lead to the engagement lead for each police area.

Emerging issues and developments

National Audit Office

Police accountability

The National Audit Office has identified a number of gaps in the Home Office's policing oversight framework, which could limit the public's ability to hold elected police and crime commissioners to account. However, although it has been in place for only a year, the new framework is said to have the potential to be an improvement on the system it has replaced.

The Home Office introduced police and crime commissioners in November 2012 as a major reform to how police forces are governed. The Home Office set out an accountability framework for policing with the aim of balancing an increase in local autonomy with the Home Office's own need to obtain assurance that police forces are securing value for money from the funding it gives them.

The NAO found that gaps in this framework – such as the limited effectiveness of police and crime panels, and HM Inspectorate of Constabulary's lack of authority to carry out routine inspections of commissioners or their offices – could limit the degree of assurance the Home Office can take from the new accountability structure. Because police and crime panels, who scrutinise commissioners, lack powers to act on the information they receive, there are few checks and balances on commissioners between elections.

The NAO report finds that the introduction of both commissioners, who hold chief constables to account, and police and crime panels, who do the same for commissioners, has increased the potential for local tensions. Nationally, six commissioners share a chief financial officer with their force, raising a potential conflict of interest. Shared chief financial officers might struggle to provide unfettered advice to both the chief constable and commissioner when they disagree.

Those in the sector to whom the NAO spoke to believe that elected commissioners are potentially better able to hold police forces to account and drive value for money than the unelected police authorities they replaced. According to elected commissioners, so far there has been a significant increase in engagement with the public compared to the previous situation under police authorities.

The NAO also reports that commissioners are not publishing all the data that the Police Reform and Social Responsibility Act 2011 requires, limiting the public's ability to hold commissioners to account. Furthermore, being able to take performance data at only face value limits the public's ability to hold commissioners to account. The Home Office and HM Inspectorate of Constabulary are now working together to agree how to provide better information to the public.



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