

To: Joint Audit Committee
Date: 12th June 2014
By: Paul Grady, Grant Thornton
Title: External Joint Audit Plan

Purpose of Report/Issue:

To present the external joint audit plan year ended 31st March 2014 to Members. This includes the audit testing strategy, audit timetable and analysis of key risks for the financial statements audit and value for money conclusion.

Recommendations

The Committee is asked to consider, comment and note the external audit plan year ended 31st March 2014.

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

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.

Year ended 31 March 2014

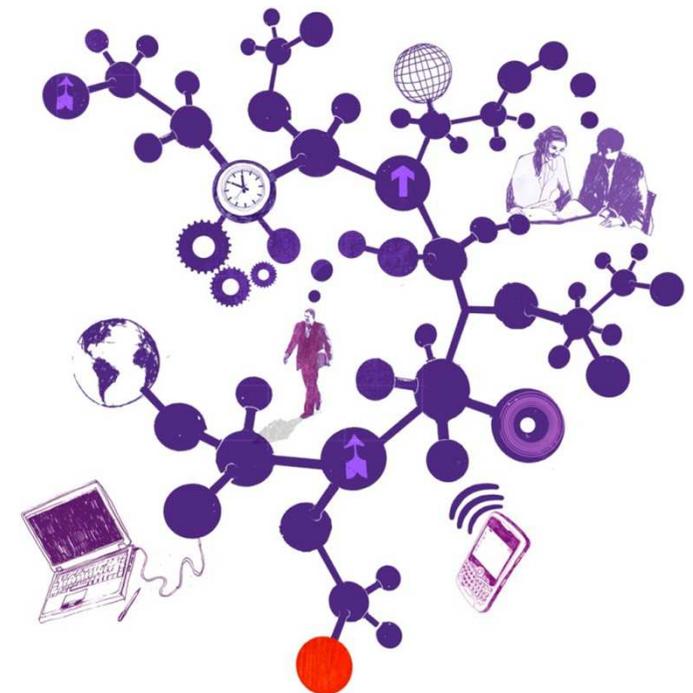
April 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Police and Crime Commissioner (PCC) and the Chief Constable are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Governance and Accountability

- Continued development and embedding of new arrangements e.g. Schemes of consent, audit committees and responding to police and crime panels
- Transparency of decision making and public accountability

2. Strategic Partnerships and Collaboration

- There is an expectation from government that police bodies should work collaboratively to improve services and achieve efficiencies
- There is a developing relationship with Sussex Police, with the joint delivery of some specialist services and implementation of a common IT system (Niche)

3. Commissioning of other PCC responsibilities

- In 2013/14 community safety funding will be included in the overall police grant
- From October 2014 the PCC will be responsible for commissioning victim support services in the area

4. Stage 2 Transfer

- The Stage 2 Transfer came in to effect from 1 April 2014 and formalises the legal allocation of staff, assets and liabilities between the PCC and the Chief Constable

5. Project Enterprise

- In 2013/14 the PCC terminated Project SIREN.
- Costs previously capitalised as part of the scheme will need to be written off
- You procured an alternative system in collaboration with Sussex Police (Niche)

6. Financial challenges

- You continue to face financial challenges going forward
- Significant savings will need to be identified and realised to remain financially sustainable

Our response

- We will discuss your progress with you through our regular meetings, providing advice and support where appropriate
- We will continue to support the sector through our programme of regional and national seminars and networking events
- Through our national campaigns we will build on our position as the largest supplier of audit in the Police sector to identify common issues and share good practice

- We will consider your plans and progress with regard to collaboration and partnership working as part of our value for money conclusion work

- We will review the PCC's arrangements for commissioning crime reduction, crime prevention and victim services as part of our value for money conclusion work

- We will consider the impact of the transfer on your arrangements to secure value for money
- We will assess your governance arrangements and shared Memorandum of Understanding
- We will explore the potential impact on your financial statements for 2013/14 and future accounting periods

- We will assess whether your assets and any impairment adjustments are accounted for correctly in your financial statements
- We will review the implementation of Niche and the extent to which planned benefits are being realised
- We will review the process for the development and implementation of subsequent business cases

- We will review your financial plans in the medium and long term to assess your responses to these challenges
- We will assess the reasonableness and achievability of your planned savings

Developments relevant to your business and the audit

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

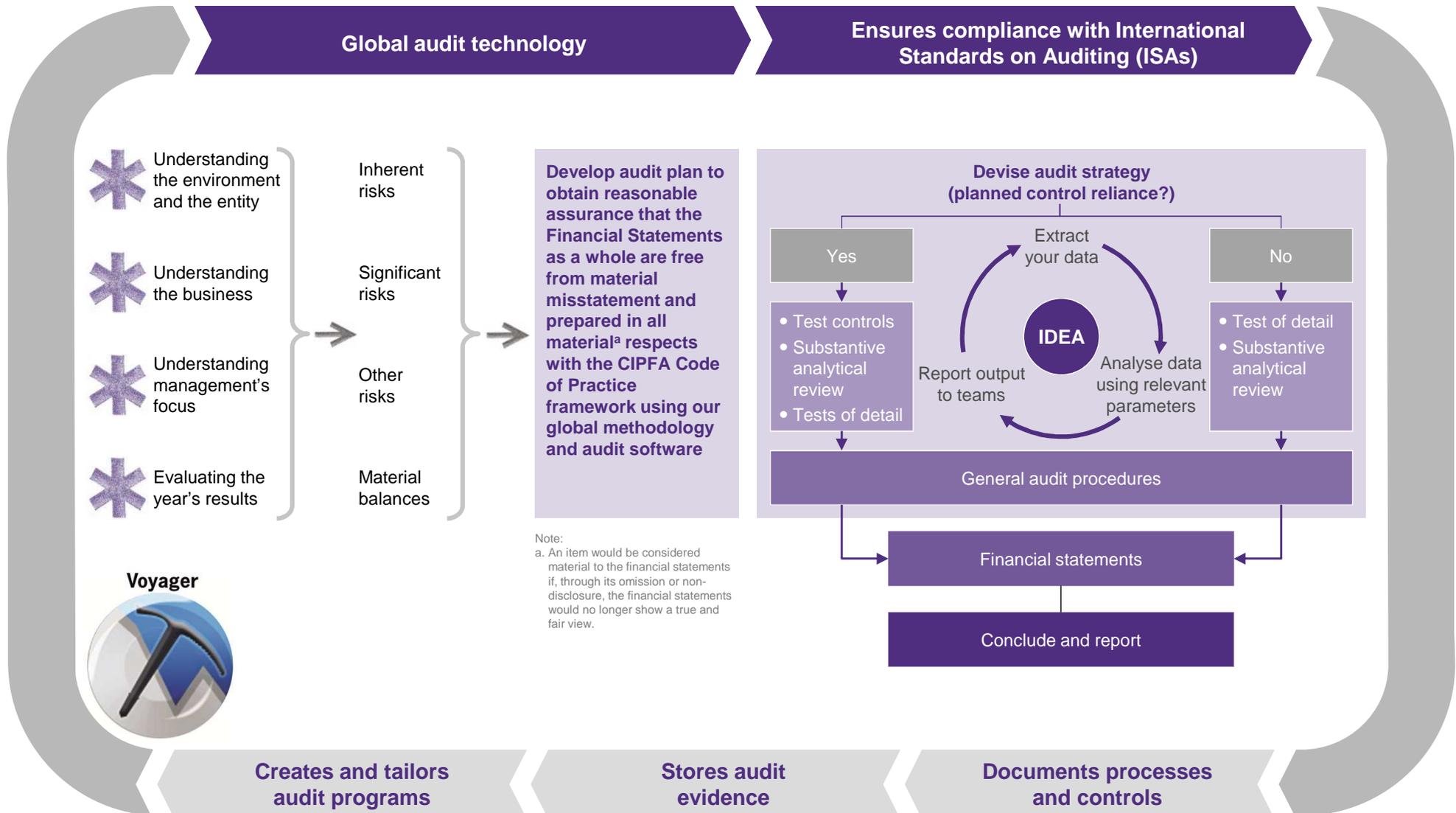
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Clarification of Code requirements around PPE valuations In a recent letter to Police CFO's, CIPFA has indicated that it plans to issue further guidance on police accounting for 2013/14 	<ul style="list-style-type: none"> As currently drafted the Anti-Social Behaviour, Crime and Policing Bill will apply some provisions of the Local Government Act 2003 to Chief Constables. This will mean that Chief Constables will be able to utilise local authority statutory overrides in their accounts. Police Funding settlement 	<ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<ul style="list-style-type: none"> The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) – this affects the pensions of police staff 	<ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	<ul style="list-style-type: none"> The PCC is required to submit a Whole of Government accounts pack based on the group accounts on which we provide an audit opinion

Our response

<ul style="list-style-type: none"> We will work with you to assess whether the PCC and the Chief Constable comply with the requirements of the CIPFA Code of Practice CIPFA has confirmed that its view continues to be that police bodies should make an assessment of control when deciding whether to account for items in the PCC or Chief Constable financial statements and all associated costs should be properly reflected. Your 2012/13 accounts were presented on this basis and we anticipate limited impact on your accounting treatment as a result of this guidance. 	<ul style="list-style-type: none"> We will discuss the impact of legislative changes with the PCC and the Chief Constable through our regular meetings with them and senior management, providing a view where appropriate If the Anti-Social Behaviour, Crime and Policing Bill receives royal assent in its current form we will work with you to consider the impact on the Chief Constable's accounts and provide an audit view where appropriate 	<ul style="list-style-type: none"> We will review the arrangements the PCC and the Chief Constable have in place for the production of their AGSs We will review both AGSs and the explanatory forewords to consider whether they are consistent with our knowledge and with your accounts 	<ul style="list-style-type: none"> We will review how the PCC and the Chief Constable dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> We will review the PCC's and the Chief Constable's performance against the 2013/14 budget, including consideration of performance against the savings and policing plan We will undertake a review of Financial Resilience as part of our Value for Money conclusion 	<ul style="list-style-type: none"> We will carry out work on the WGA pack in accordance with requirements
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Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Relevant to PCC / Chief Constable / Both?	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Both	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing of material revenue streams• Testing of cut-off and completeness and accuracy of accrued liabilities.
Management over-ride of controls	Both	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks identified

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Cycle	Relevant to PCC / Chief Constable / Both?	Description of risk	Work completed to date	Further work planned
Operating expenses	Both	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues. 	<ul style="list-style-type: none"> Unrecorded liabilities search and testing of goods received not invoiced Testing for correct treatment of payments either side of balance sheet date Substantive review of reconciliation between general ledger and accounts payable
Employee remuneration	Both	Employee remuneration accrual understated	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues. 	<ul style="list-style-type: none"> Substantive testing of sample of payments through payroll to supporting records to assess whether they are in line with contractual amounts. Testing of reconciliation of payroll records to general ledger. Testing of starters and leavers to gain assurance over completeness of payroll
Property, Plant & Equipment	PCC	PPE activity not valid	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues. 	<ul style="list-style-type: none"> Testing of additions and disposals in year
Property, Plant & Equipment	PCC	PPE improperly expensed	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues. 	<ul style="list-style-type: none"> Testing movements between asset categories

Other risks identified cont'd

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Cycle	Relevant to PCC / Chief Constable / Both?	Description of risk	Work completed to date	Further work planned
Pensions Benefits Payable	CC	Benefits not accounted for correctly	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Review of the report on the internal controls of Equiniti Review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD Testing of sample of pensioner lump sums and pensions
Pension Contributions Receivable	CC	Contributions not calculated correctly	<ul style="list-style-type: none"> We have carried out walkthrough testing to confirm that controls are implemented as per our understanding Our work to date has identified no significant issues to bring to your attention 	<ul style="list-style-type: none"> Substantive testing of sample of employees through the payroll to supporting records to ensure they are in line with scheme guidelines

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

For accounting purposes the Chief Constable is considered a subsidiary of the Police and Crime Commissioner. As such the financial information of the Chief Constable is consolidated within the PCC group accounts. We will comply with the requirements of ISA 600 in carrying out our audit of the Chief Constable financial statements.

Value for money

Our audit approach

The Code of Audit Practice requires us to issue conclusions on whether the PCC and the Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. These are known as Value for Money (VfM) conclusions. We will issue separate conclusions for the PCC and for the Chief Constable.

Our VfM conclusions for the PCC and the Chief Constable are based on two criteria specified by the Audit Commission, which are shown in the table below. The results of our VfM audit work and the key messages arising will be reported in our joint Audit Findings report to the PCC and the Chief Constable and in the Annual Audit Letters to each body. We will agree any additional reporting on a review by review basis.

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

Value for money

Initial risk assessment – areas of focus

In setting our audit strategy for the year, we have identified the following areas of focus which we will consider when we give our VFM conclusions for the PCC and the Chief Constable. Six of these areas relate to both bodies, albeit from different perspectives (arrangements for oversight and governance within the office of the PCC, and arrangements for governance and delivery within the office of the Chief Constable). The remaining area is unique to the PCC.

The focus of our work at the office of the PCC will be on assessing whether the organisation has put in place arrangements to have appropriate oversight of activities delegated to the Force. For the Force, we will focus on the effectiveness of management arrangements which support delivery of the strategies and policies.

Area of focus	Risk for the PCC?	Risk for the Chief Constable?	Work planned to address the risk
Improving public reporting of financial and other performance	✓	✓	<ul style="list-style-type: none"> Consider whether financial and other information made available to the public and key stakeholders is sufficiently clear and accessible
Cost savings and medium-term financial plans	✓	✓	<ul style="list-style-type: none"> Review 2013/14 financial outturn against the original budget and cost-saving targets set for the year, and assess your financial performance Review budget-setting processes for 2014/15, and assess how feasible and robust the budget is. Consider changes to medium-term financial planning processes, and whether these are designed to support delivery of Police and Crime Plan objectives Assess progress towards genuine long term financial planning
Governance frameworks	✓	✓	<ul style="list-style-type: none"> Consider and assess the new corporate governance frameworks in place across both bodies Assess effectiveness of stage 2 planning and implementation and supporting governance mechanisms
Commissioning framework	✓	✗	<ul style="list-style-type: none"> Review commissioning framework and supporting documents Consider whether adequate arrangements are in place to support responsibility for commissioning crime reduction and victim support services

Value for money

Initial risk assessment – areas of focus (continued)

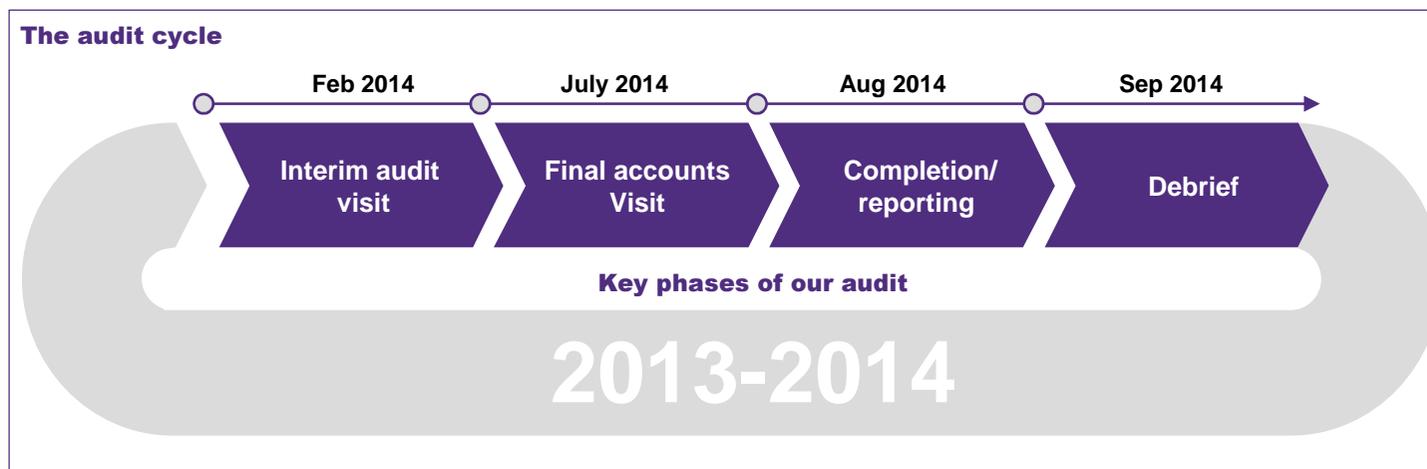
Area of focus	Risk for the PCC?	Risk for the Chief Constable?	Work planned to address the risk
Collaboration	✓	✓	<ul style="list-style-type: none">• Review progress and effectiveness of your collaboration arrangements with Sussex Police and the extent to which planned benefits are being realised• Review your partnership arrangements in respect of other collaborations, such as joint working with the Surrey Fire and Rescue Service and the Police Innovation Fund.
Niche implementation	✓	✓	<ul style="list-style-type: none">• Review progress of Niche implementation and realisation of planned benefits• Assess progress in producing and delivering subsequent business cases
Arrangements for complying with external regulation	✓	✓	<ul style="list-style-type: none">• Review your arrangements for considering and responding to recommendations from regulators, such as HMIC, the Independent Police Complaints Commission (IPCC) and the College of Policing.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Relevant to PCC / Chief Constable / Both?	Work performed and findings	Conclusion
Internal audit	Both	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to the PCC's or the Chief Constable's attention.</p> <p>We also reviewed internal audit's work on the PCC's and the Chief Constable's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the PCC and the Chief Constable and that internal audit work contributes to an effective internal control environment at both entities.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	Both	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements of the PCC and the Chief Constable.</p> <p>Our work has not identified any issues which we wish to bring to the PCC's or the CC's attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach for the PCC and the Chief Constable.</p>
Journal entry controls	Both	<p>We have reviewed journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the their control environment or financial statements.</p>	<p>Journals will be tested substantively as part of the final accounts audit</p>

Key dates



Date	Activity
November 2014	Planning
February 2014	Interim site visit
May 2014	Present audit plan to PCC and the Chief Constable as Those Charged with Governance
June 2014	Presentation of audit plan to the Joint Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with the PCC's and the Chief Constable's Chief Finance Officers
September 2014	Report audit findings to the Joint Audit Committee
September 2014	Present audit findings to the PCC and the Chief Constable as Those Charged with Governance prior to their approval of their accounts
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Police and Crime Commissioner Audit	20,000
Chief Constable Audit	51,610
Total fees for the Group (excluding VAT)	71,610

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the activities of the PCC and the Chief Constable have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations.
- Accounts submitted for audit will be materially correct and supported by accurate and consistent working papers and evidence.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

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

Communication of audit matters with those charged with governance

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

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

We will communicate any adverse or unexpected findings affecting the audits on a timely basis, either informally or via a report to the PCC and the Chief Constable.

Respective responsibilities

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

We have been appointed as the 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 PCC's and the Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and of 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.

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



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