

PART ONE

ITEM 07

To: Joint Audit Committee
Date: 31st March 2015
By: Iain Murray, Grant Thornton
Title: Draft External Audit Plan 2014/15

Purpose of Report/Issue:

To present the external joint audit plan year ended 31st March 2015 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 2015.

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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.

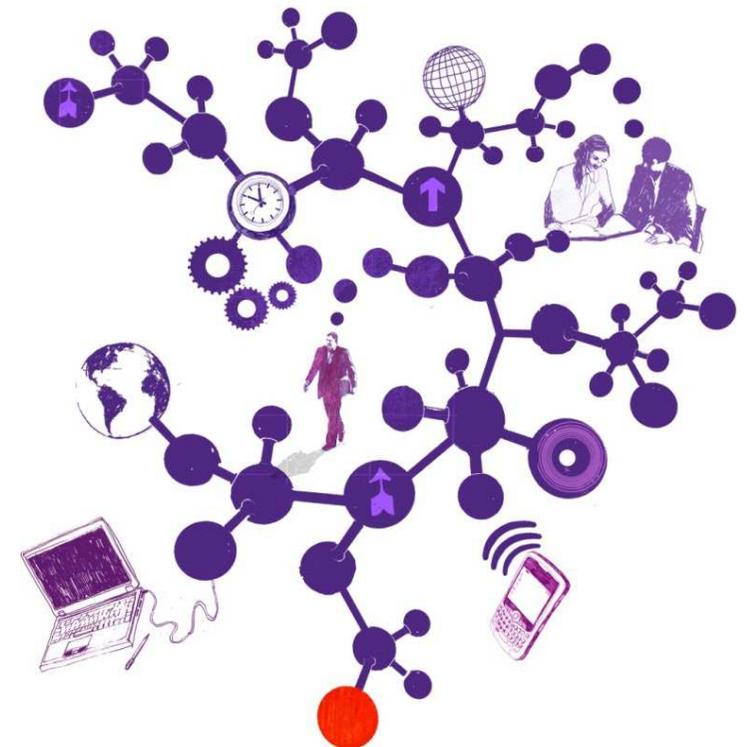
Year ended 31 March 2015

April 2015

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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. Financial context

- The Home Office released details of the 2015/16 police funding formula in December 2014.
- Fiscal austerity is expected to continue until at least 2019, regardless of the outcome of the next general election.
- The Home Office budget has already been cut by almost 25% over the five years to 2015/16 (Institute for Fiscal Studies).

2. Delivering the police and crime plan

- Positive results have been reported in the year to date 2014/15: overall crime levels down and reductions in serious acquisitive crime.
- Demand may be shifting with increasing violent and sexual crime alongside other demands such as incidents which involve people with mental health issues, missing persons and anti social behaviour.

3. Strategic Partnerships and Collaboration

- Your collaboration with Sussex continues to develop particularly in relation to back-office and support functions.
- The effective governance of these arrangements will be key to ensuring that they deliver value for money for taxpayers and local residents.

4. Organisational development and programme management

- During 2014 you introduced new programme management arrangements across Surrey and Sussex.
- These arrangements will play an important part in the effectiveness of your change management and organisational development.

5. Workforce planning

- Surrey Police have a higher than average turnover of staff largely due to the high cost of living in the county and stagnant pay levels.
- This has led to higher training costs and overall lower resource availability where mid-service experienced officers have left the Force.
- This presents challenges in terms of maintaining a suitably trained and experienced workforce.

Our response

- We will discuss the impact of the settlement on the medium term financial strategy and police and crime plan through our regular meetings with you.
- We will review your performance against the 2014/15 budget, including consideration of performance against savings targets included in the MTFs and police and crime plan.
- We will undertake a review of financial resilience as part of our value for money conclusion.

- We will consider your maintenance of crime reduction on your arrangements to secure value for money in the knowledge that while some types of crime are reducing, this doesn't automatically translate into lower costs.
- We will explore whether we can assist your demand management activities via our national network and programme of events.

- We will review arrangements around collaboration and partnership working as part of our value for money conclusion work
- We will advise you of examples of successful collaboration which we encounter in our national campaigns and networking events

- We will consider progress made against our programme management recommendations as part of our value for money conclusion work.

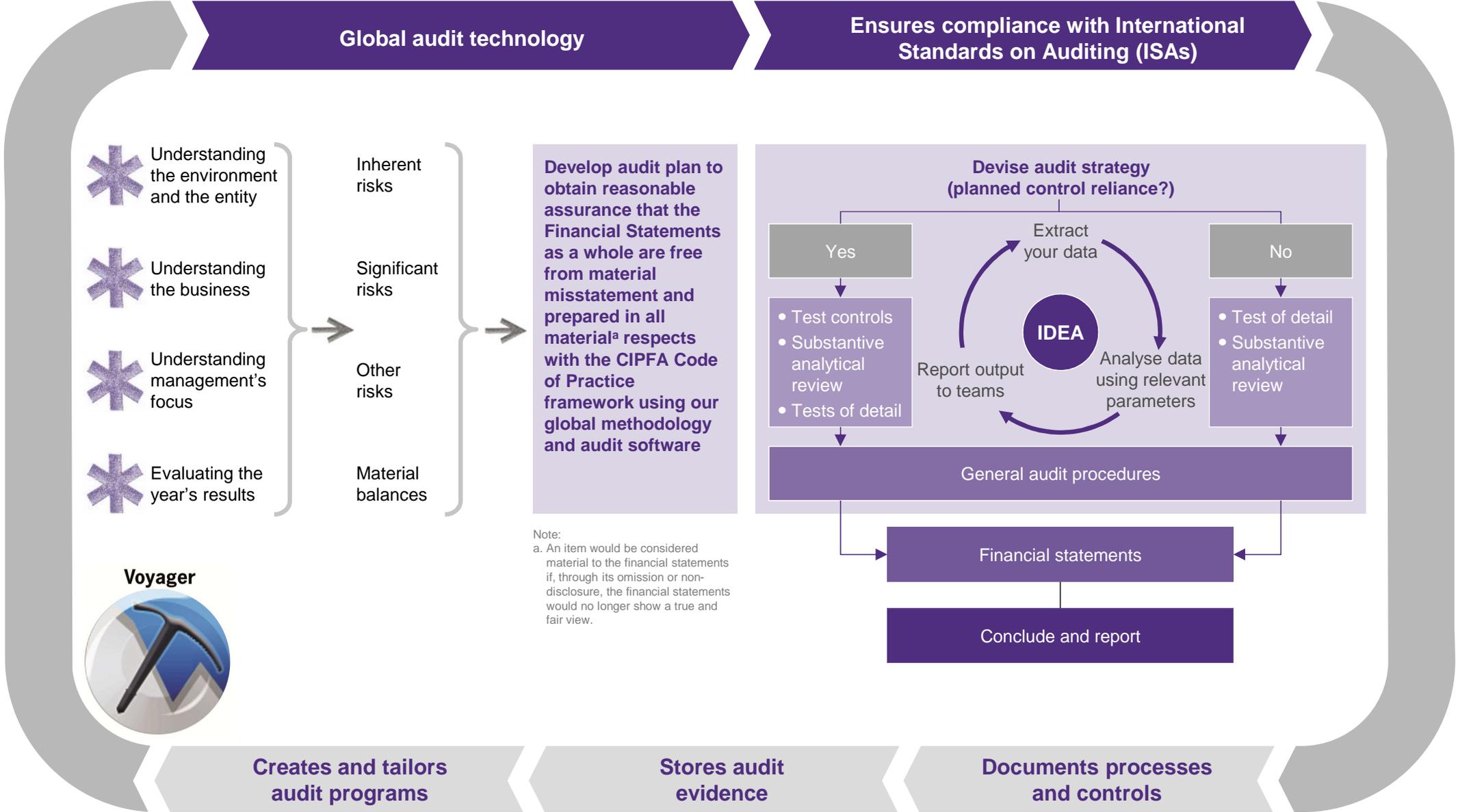
- We will consider the impact of your workforce planning on your arrangements to secure value for money

Developments relevant to your business and the audit

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

Developments and other requirements			
1. Financial reporting <ul style="list-style-type: none">• Changes and updates to the CIPFA Code of Practice for 2014/15	2. Corporate governance <ul style="list-style-type: none">• Annual Governance Statement (AGS)• Explanatory foreword	3. Financial pressures <ul style="list-style-type: none">• Managing service provision with less resource• Progress against savings plans	4. Other requirements <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 determine the impact of any changes to the Code on your financial statement• Our audit opinion will provide assurance that the financial statements have been prepared in accordance with the applicable financial reporting framework	<ul style="list-style-type: none">• We will review the arrangements the PCC and the Chief Constable have in place for the compilation and publication 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 the PCC's and the Chief Constable's performance against the 2014/15 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 specified audit procedures on the PCC's WGA consolidation pack on behalf of the National Audit Office• We are required to consider any significant subsequent events that would impact on our financial statements opinion or value for money conclusion at the point we complete work on the WGA and issue our certificate of closure

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.	<p>We have rebutted this presumed risk for the PCC because:</p> <ul style="list-style-type: none"> Revenue is principally made up of grants from central government and the Council Tax precept Recognition of these types of income are considered to be relatively simple <p>We have rebutted this presumed risk for the Chief Constable because:</p> <ul style="list-style-type: none"> revenue is an inter group transfer from the PCC revenue does not involve cash transactions <p>We therefore do not consider this to be a significant risk for either the PCC or the Chief Constable</p>
Management over-ride of controls	Both	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Identification of significant accounting estimates, judgments and decisions made by management Review of controls around journal entries Identification of significant, unusual transactions <p>Further work planned:</p> <ul style="list-style-type: none"> Review and challenge of significant accounting estimates, judgments and decisions made by management Detailed testing of high risk journal entries Review accounting treatment for significant, unusual 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"> Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts Testing for correct treatment of payments either side of balance sheet date Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces
Employee remuneration	Both	Employee remuneration accruals 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 ensure that they are in line with contractual amounts Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces Testing of the treatment starters and leavers to gain assurance over completeness of payroll Trend analysis of the employee remuneration expenditure month by month and by comparison to the prior year

Other risks identified (continued)

Cycle	Relevant to PCC / Chief Constable / Both?	Description of risk	Work completed to date	Further work planned
Pensions Benefits Payable	Chief Constable	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 the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces Substantive testing of monthly pension benefit payments made in the year Substantive testing of lump sum pension benefit payments made in the year

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.

Component	Significant?	Level of response required under ISA 600	Planned audit approach
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP

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	Findings and 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.</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>
Review of entity-level controls	Both	<p>We have reviewed the systems and controls at entity-level. This included reviewing the procedures for identifying related parties.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the financial statements.</p> <p>Our review of the procedures in place for identifying related parties has identified scope to improve the processes currently in place.</p> <p>At present an overall organisation wide review of interests and related party transactions occurs at the year-end. More regular reviews and updates during the year would reduce the risk that related party relationships could be omitted or recorded incorrectly at the year-end.</p>

Results of interim audit work

	Relevant to PCC / Chief Constable / Both?	Work performed	Findings and conclusion
Walkthrough testing	Both	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>Internal controls have been implemented in accordance with our documented understanding.</p> <p>Our work has not identified any material issues which we wish to bring to the PCC's or the Chief Constable's attention.</p> <p>Our review of controls over employee remuneration has identified one area for potential improvement.</p> <p>As recommended in prior years the payroll is now reconciled to the general ledger on a monthly basis. However we observed that there is no formal procedure to investigate discrepancies and record the outcome of these investigations. The resolution of discrepancies is a relatively informal process and relates to invalid general ledger codes.</p> <p>Our work has not identified any other weaknesses which impact on our audit approach for the PCC or the Chief Constable.</p>
Journal entry controls	Both	We have reviewed journal entry policies and procedures as part of determining our journal entry testing strategy.	<p>We have not identified any material weaknesses which are likely to adversely impact on the control environment or financial statements.</p> <p>Journals remain to be tested in detail as part of our final accounts audit</p>

Value for money

Value for money

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 the following criteria specified by the Audit Commission:

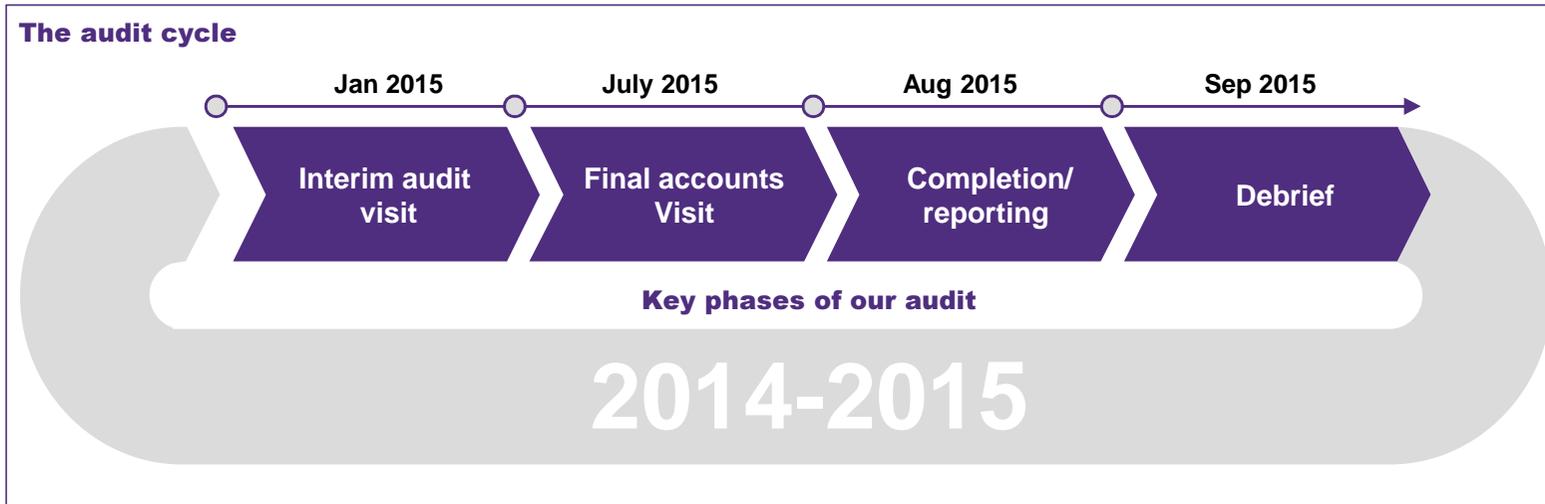
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate 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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusions. We will undertake work in the following areas to address the risks identified which are relevant to the conclusions of both the PCC and the Chief Constable. We will:

- Follow up our programme management recommendations made in our Audit Findings Report 2013/14
- Review your collaboration arrangements with Sussex Police and other partners
- Assess your financial performance and financial health in 2014/15
- Assess your budget setting and longer term financial planning

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.

Key dates



Date	Activity
November 2014	Planning
February 2015	Interim site visit
March - June 2015	Presentation of the audit plan to the Joint Audit Committee and to the PCC / Chief Constable as Those Charged with Governance
July 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with the PCC's and the Chief Constable's Chief Finance Officers
September 2015	Report audit findings to the Joint Audit Committee
September 2015	Present audit findings to the PCC and the Chief Constable as Those Charged with Governance prior to their approval of their accounts
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Police and Crime Commissioner Audit	51,610
Chief Constable Audit	20,000
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.

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		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><u>Identification of Related Party Transactions</u></p> <p>We observed that the entity-level controls and processes for identifying interests and related party transactions largely occur at the year end.</p> <p>We would recommend that more regular reviews and updates of interests and related party transactions are carried out and recorded during the year to avoid the omission of these transactions from disclosure.</p>	Low		
2	<p><u>Payroll Reconciliation Discrepancies</u></p> <p>We observed that in the process of reconciling the payroll to the general ledger each month the resolution of discrepancies (relating to invalid general ledger codes) is a relatively informal process and is not clearly documented.</p> <p>We would recommend the implementation of a formal procedure to investigate discrepancies and record the resolution of these investigations.</p>	Low		



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