

# The joint Audit Findings Report for the Surrey Police and Crime Commissioner and the Chief Constable of Surrey

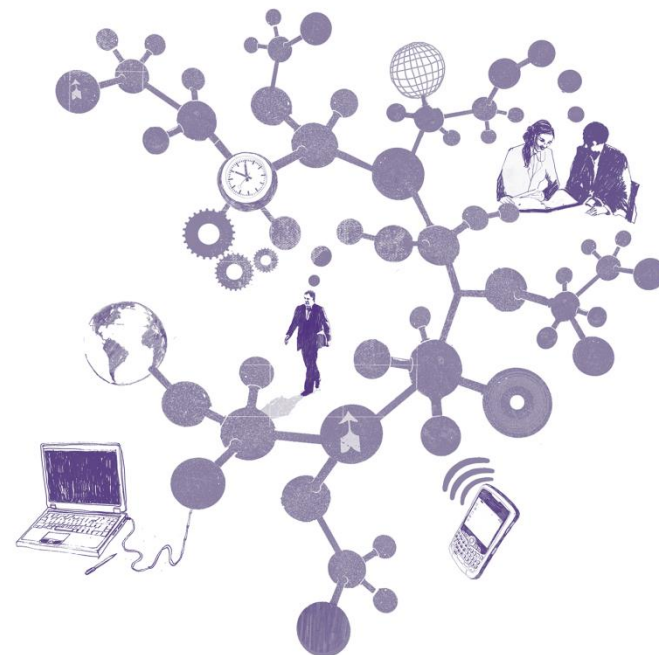
**Year ended 31 March 2015**

9 September 2015

**Iain Murray**  
Engagement Lead  
T 0207 728 3328  
E [iain.g.murray@uk.gt.com](mailto:iain.g.murray@uk.gt.com)

**Marcus Ward**  
Manager  
T 0207 728 3350  
E [marcus.ward@uk.gt.com](mailto:marcus.ward@uk.gt.com)

**Andrew Conlan**  
Executive  
T 0207 728 2492  
E [andrew.conlan@uk.gt.com](mailto:andrew.conlan@uk.gt.com)





Surrey Police and Crime Commissioner and the Chief Constable  
of Surrey  
Mount Browne  
Guildford  
Surrey  
GU3 1YJ

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

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

9 September 2015

Dear Kevin and Lynne,

**Audit Findings for Surrey Police and Crime Commissioner and the Chief Constable of Surrey for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audits of the Police and Crime Commissioner (PCC) and Chief Constable for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. For police bodies, those charged with governance are the Police and Crime Commissioner and the Chief Constable for the respective corporations sole. The contents of this report have been discussed with management.

As auditors we are responsible for performing the audits, in accordance with International Standards on Auditing (UK & Ireland), which are directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance for each corporation sole. The audit of the financial statements for each body does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Iain Murray for and on behalf of Grant Thornton UK LLP

**Chartered Accountants**

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# Section 1: Executive summary

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**02. Audit findings**

**03. Value for Money**

**04. Fees, non-audit services and independence**

**05. Communication of audit matters**

# Executive summary

## **Purpose of this report**

As the external auditor appointed to both the Police and Crime Commissioner 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 their respective corporations sole.

This report (our joint Audit Findings Report) highlights the key matters arising from our audits of the single entity PCC and the single entity Chief Constable's financial statements for the year ended 31 March 2015, as well as the group financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance (the PCC and the Chief Constable) in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the PCC's and the Chief Constable's financial statements each present a true and fair view of the financial position and 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 (the CIPFA Code). We issue separate audit opinions on the financial statements of the PCC and the Chief Constable.

We are also required to reach a formal conclusion on whether the PCC and Chief Constable have each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources (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.

## **Introduction**

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 joint Audit Plan dated 31 March 2015.

Our audits are both substantially complete, although we are finalising our work in the following areas:

- assessment of the estimate of the provision for police pension commutations
- review of the final version of the financial statements of both the PCC and Chief Constable including their Annual Governance Statements
- obtaining and reviewing the management letters of representation for both audits
- updating our post balance sheet events review, to the date of signing the opinions for both audits
- final senior management and quality reviews and
- Whole of Government Accounts review for the group, as required by the National Audit Office

We received the draft financial statements and accompanying working papers for both the PCC and Chief Constable at the start of our audits, in accordance with the agreed timetable.

## **Key messages – audit of the Police and Crime Commissioner**

### **Financial statements opinion**

Subject to the satisfactory completion of the outstanding matters set out on page 5, we anticipate providing an unqualified opinion on the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable.

The key messages arising from our audit of the group and PCC's financial statements are:

- we received good quality draft financial statements in accordance with the statutory deadline.
- improvements could be made to the quality of the supporting working papers provided to support the financial statements, we will work with the finance team to improve these in subsequent years.
- management's judgements in key areas were reasonable, in particular we support the change in treatment of pension commutations from a contingent liability to a provision following changes in circumstances subsequent to the production of the draft financial statements.

We have identified nine adjustments to the group and PCC's financial statements all of which have been agreed and made by management in the final version of the financial statements. These include two adjustments affecting reported financial performance for the year.

We have included further details of findings, including details of the adjustments referred to above, in section two of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the PCC's arrangements to secure economy, efficiency and effectiveness in their use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

### **Whole of Government Accounts (WGA)**

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

## **Key messages – audit of the Chief Constable**

### **Financial statements opinion**

Subject to the satisfactory completion of the outstanding matters set out on page 5, we anticipate providing an unqualified opinion on the Chief Constable's financial statements, including the police officer pension fund accounting statements.

The key messages arising from our audit of the Chief Constable's financial statements are:

- we received good quality draft financial statements in accordance with the statutory deadline.
- improvements could be made to the quality of the supporting working papers provided to support the financial statements, we will work with the finance team to improve these in subsequent years.
- management's judgements in key areas were reasonable, in particular we support the change in treatment of pension commutations from a contingent liability to a provision following changes in circumstances subsequent to the production of the draft financial statements.

We have identified one adjustment to the Chief Constable's financial statements which management has agreed to make. This adjustment to include a provision for pension commutations affected the reported financial performance for the year although it has been off-set by an equal and opposite long-term debtor.

We have included further details of our findings, including details of the adjustments referred to above, in section two of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Chief Constable's arrangements to secure economy, efficiency and effectiveness in their use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

## Controls

### Roles and responsibilities

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

Management has operated a common set of financial systems and controls to produce both sets of financial statements for 2014/15. Our work on the material financial systems used to prepare the financial statements has therefore supported our audits of both the PCC and the Chief Constable.

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 the PCC and to the Chief Constable.

### Findings

We draw your attention in particular to control issues identified in relation to:

- auto-accruals: we identified that these system-generated accruals are not being reviewed on regular basis to pick up and release accruals which are no longer necessary, for example monthly or quarterly accruals raised for the purpose of in-year management accounting.
- manual accruals: there is no consistent means or process for these accruals. Although all the manual accruals we tested were validly made, it was often difficult to understand the calculations and audit trail for these. It was also difficult to understand how another officer could pick up the work should a business partner leave or be absent.
- removing employees from payroll: our testing identified a casual employee who had remained on the payroll despite not having been paid since 2011. Controls could be improved over the removal of employees from the payroll.

Further details are provided within section two of this report.

## The way forward

Matters arising from both of the financial statements audits and our reviews of the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources have been discussed and agreed with management as well as the PCC and the Chief Constable as the two individuals charged with overall governance for the office of the PCC and Surrey Police Force respectively.

We have made a number of recommendations, which are set out in the action plans in this report. Appendix A includes recommendations arising from our CC audit and Appendix B includes recommendations arising from our value for money audit. Recommendations have been discussed and agreed with the finance team.

## Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by finance staff and other officers in both the office of the PCC and the police force during our audits.

**Grant Thornton UK LLP**  
**September 2015**



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## 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

In this section we present our findings in respect of matters and risks identified at the planning stage of the audits and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Joint Audit Committee on 31 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made changes to our Audit Plan as previously communicated to you on 31 March 2015.

## **Audit opinion**

We expect to issue an unqualified opinion on both the PCC's financial statements and the Chief Constable's financial statements. Our proposed audit opinions are set out in Appendices C and D.

# 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 (UK&I) 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.

	Risks identified in our audit plan	Relevant to? PCC/CC/Both	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	Both	<p>We rebutted this presumed risk for the PCC because:</p> <ul style="list-style-type: none"> <li>Revenue is principally made up of grants from central government and the Council Tax precept</li> <li>Recognition of these types of income are considered to be relatively simple</li> </ul> <p>We rebutted this presumed risk for the Chief Constable because:</p> <ul style="list-style-type: none"> <li>revenue is an inter group transfer from the PCC</li> <li>revenue does not involve cash transactions</li> </ul>	<p><b>PCC and Chief Constable audits</b></p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Relevant to? PCC/CC/Both	Work completed	Assurance gained and issues arising
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	Both	<p><b>PCC and Chief Constable audits</b></p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p><b>PCC and Chief Constable audits</b></p> <p>Our audit work has not identified any evidence of management override of controls in either organisation.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# 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 for the PCC and Appendix B for the Chief Constable.

Transaction cycle	Relevant to: PCC/CC/Both	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	<b>Both</b>	Creditors understated or not recorded in the correct period	<p><b>PCC and Chief Constable audits</b></p> <ul style="list-style-type: none"> <li>• undertaken walkthrough testing to confirm that controls are implemented as per our understanding</li> <li>• substantive testing of a sample of expenditure recorded on the accounting system to supporting documentation and payments</li> <li>• 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</li> <li>• testing for correct treatment of payments either side of balance sheet date</li> <li>• testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> </ul>	<p><b>PCC and Chief Constable audits</b></p> <p>We identified two errors in our testing of the auto-accruals classification. More detail on these errors can be seen on pages 24 and 26. It was agreed that one of these errors would be adjusted in the financial statements, while the other was trivial and would be left unadjusted.</p>
<b>Employee remuneration</b>	<b>Both</b>	Employee remuneration accruals understated	<p><b>PCC and Chief Constable audits</b></p> <ul style="list-style-type: none"> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• trend analysis of the employee remuneration expenditure month by month and by comparison to the prior year</li> <li>• substantive testing of sample of payments through payroll to supporting records to assess whether they are in line with contractual amounts</li> <li>• testing of reconciliation of payroll records to general ledger</li> <li>• testing of starters and leavers to gain assurance over completeness of payroll through random sampling of payroll transactions</li> <li>• review and of other remuneration disclosures and confirmation of these (employee numbers, redundancy packages, senior officers remuneration) to supporting schedules and evidence.</li> </ul>	<p><b>PCC and Chief Constable audits</b></p> <p>It was observed in our payroll testing that there was a casual employee registered on the payroll system who had not worked for the Force or been paid since 2011. This presents a risk of fraudulent/erroneous employee expenditure being included in the accounts. We have included an internal control recommendation on page 22 relating to this.</p> <p>Our audit work has not identified any other 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
<p><b>Pensions Benefits Payable</b></p>	<p><b>Chief Constable</b></p>	<p>Benefits not accounted for correctly</p>	<ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• review of the ISAE3240 controls audit report for the service provider to identify specific controls over the set up of new pensioners and then the payment cycle for benefits to gain assurance that the systems and controls are strong and would prevent material error in the reporting of benefit payments to Surrey Police Force</li> <li>• reconciled the amounts of benefits notified to Surrey Police Force by Equiniti to the amounts recognised in the accounts</li> <li>• performed analytical review on the benefits paid to gain assurance that they are not materially misstated</li> <li>• review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD</li> <li>• substantive testing of a sample of payments made in respect of lump sum/commutation benefit payments</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Significant matters discussed with management

	Significant matter	Commentary
1	<p><b>Police House Valuations</b></p> <p>Police houses included in the draft financial statements are currently held at a valuation date of 31 March 2012. There is a risk that the valuation in the financial statements is materially different to their fair value as 31 March 2015. Management looked to mitigate this risk by reviewing indices to assess the potential difference between the value they are currently held at and the value as at 31 March 2015. This review identified that asset values in Surrey have increased significantly since police houses were last revalued and as a result these assets could be considered to be significantly understated in the financial statements.</p>	<p>We have reviewed the valuation of land and buildings in the accounts. We have used various sources of property indexation information to estimate valuations for police houses at 31 March 2015. Although the estimated indexed valuation was significantly higher than the net book value stated in the accounts management decided not make adjustment in the financial statements for the following reasons:</p> <ul style="list-style-type: none"> <li>the application of indexation to the 61 police houses could produce an inaccurate valuation which could still be materially different to the fair value</li> <li>the valuation increase in police houses would not change the opinion of users of the accounts as the gross income and expenditure performance against budget is the most important factor for most users of the Force's accounts</li> <li>a professional revaluation is expected to be carried out for these assets at the next year end which will accurately recognise any changes in valuation</li> </ul> <p>Management have agreed to disclose the amount of the potential adjustment to valuations of police houses in the financial statements. We are satisfied that management's approach is reasonable and does not result in a material misstatement to the financial statements.</p>
2	<p><b>Contingent Liabilities</b></p> <p>The draft financial statements included three potentially significant contingent liabilities relating to the following matters:</p> <ul style="list-style-type: none"> <li>the Pensions Ombudsman's finding of maladministration against the Government Actuaries Department (GAD) in respect of failure to review commutation factors, which may lead to the need for additional lump-sum payments to be made to officers who retired between 2001 and 2006</li> <li>an Employment Appeal Tribunal decision about employers' liability for holiday pay in respect of 'guaranteed overtime' (the 'Bear Scotland' case)</li> <li>The Police Force's increased adoption of the A19 rule from Section 19 of the Police Pension Regulation 1987 giving rise to increase potential liabilities in Employment Tribunals</li> </ul>	<p>During the course of the audit we discussed the accounting treatment of all of these matters with management.</p> <p>Further information came to light in respect of the pensions commutation liability which will allow management to quantify the expected liability. Management has therefore agreed to account for this liability as a provision, rather than a contingent liability, in the final version of the financial statements. The work to support the estimate in the financial statements was produced by Equiniti (the pensions administration service organisation) and our review of the figures themselves is being carried out at the time of writing this report.</p> <p>The pension commutation liability will increase expenditure in the police officer pension fund, and is now accounted for as a provision on the balance sheet. It is backed by an equal and opposite debtor with the Home Office, reflecting the fact that the Home Office will ultimately fund payments made from this provision through the Police Pension Top-up Grant.</p> <p>Management are of the view that there is sufficient uncertainty about the impact of the 'Bear Scotland' liability that a transfer of economic benefit is possible rather than probable at this stage. On this basis they have continued to account for this item as a contingent liability in the financial statements. We are satisfied that the approach taken by management is reasonable but have asked that the disclosures in the financial statements be updated to better reflect the judgements that they have made in relation to this issue.</p>

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# 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 purpose 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 have complied with the requirements of ISA 600 in carrying out our audit of the Chief Constable financial statements.





# 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 with the Authority's financial statements.


Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Revenue recognition	Both	<p><b>PCC</b></p> <ul style="list-style-type: none"> <li>The accounts reflect the normal accruals concept for both capital and revenue. Debtors are included within the Balance Sheet where services have been provided but not yet reimbursed at the year end.</li> <li>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 a reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.</li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>Revenue from the PCC is recognised as an intra-group adjustment.</li> </ul>	<p><b>PCC audit</b></p> <ul style="list-style-type: none"> <li>The accruals concept and method of grant recognition are appropriate policies under the Code of Practice on Local Authority Accounting.</li> <li>The Policing Protocol Order 2011 states that the PCC is the recipient of all funding related to police and crime reduction (paragraph 16) and has the legal power and duty to decide the budget and allocate assets and funds to the Chief Constable (paragraph 17(d)).</li> <li>Revenue has initially been recognised in the PCC's Comprehensive Income and Expenditure Statement and is then shown to be transferred to the Chief Constable to match expenditure. It is therefore reasonable to adopt this recognition policy and to include Non Current and Current Debtors on the PCC's balance sheet.</li> </ul> <p><b>Chief Constable audit</b></p> <ul style="list-style-type: none"> <li>The Comprehensive Income and Expenditure Account shows intra group funding. This funding is non-specific and is therefore shown as a separate line rather than being allocated to specific policing services.</li> <li>Paragraph 2.1.2.26 of the Code of Practice defines income as 'the gross flow 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 the 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 revenue.</li> </ul> <p>Our testing to date of government grants and contributions and other revenues has not identified any instances of inappropriate revenue recognition.</p>	

## Assessment

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

-  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
<p><b>Cost recognition</b></p>	<p>Both</p>	<p><b>PCC</b></p> <ul style="list-style-type: none"> <li>The cost of an item of property, plant and equipment is capitalised provided that the asset will benefit the Group for a period of more than one year, and the cost of the item can be measured reliably.</li> <li>The accounts reflect the normal accruals concept for both capital and revenue. Creditors are included within the Balance Sheet for goods and services supplied but not paid for at the year end.</li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>All expenditure is paid for by the PCC including the wages of police staff and officers, and no actual cash transaction or events take place between the two entities. Costs are however recognised within the Chief Constable's Accounts to reflect financial resources consumed.</li> <li>The accounts reflect the normal accruals concept whereby costs for services are included in the year to which they relate.</li> </ul>	<p><b>PCC audit</b></p> <ul style="list-style-type: none"> <li>Management consider the PCC to be in control of tangible and intangible assets, as it is the PCC's decision whether to buy or sell these assets and the position retains the risks and rewards of ownership. This is reasonable given that the PCC has direct formal control over who can use these assets.</li> </ul> <p><b>Chief Constable audit</b></p> <ul style="list-style-type: none"> <li>Management have included police officer and police staff employee remuneration in the Chief Constable's Comprehensive Income and Expenditure Statement.</li> <li>In substance the Chief Constable has direct operational control of police officers and police staff. This means that it is appropriate to recognise the full costs of employment for delivering the Police and Crime Plan and the liabilities for the defined benefit pension schemes.</li> <li>Other expenditure is incurred by the Chief Constable to fulfil the objectives set out by the PCC in the Police and Crime Plan.</li> <li>As the Chief Constable has operational control over this expenditure it is reasonable that these costs should be included in the Chief Constable's accounts. Depreciation is also included in the Chief Constable's accounts as management are of the view that it is a suitable proxy for the cost of the Chief Constable's use of the PCC's assets. This is a reasonable approach and will result in a fair value for the use of the assets being charged to the Comprehensive Income and Expenditure Account.</li> <li>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's accounts.</li> </ul> <p>Our testing to date of expenditure has not identified any instances of inappropriate recognition.</p>	



**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators



● Accounting policy appropriate but scope for improved disclosure


● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements continued



Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
<b>Property, Plant and Equipment</b>	<b>PCC</b>	Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, or, as a minimum, every 5 years	<p>The CIPFA Code (paragraph 4.1.2.35) requires items within a class of property, plant and equipment to be valued simultaneously. This paragraph of the CIPFA Code, which is based on IAS 16 (Property, Plant and Equipment) does permit a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>the revaluation within the class of assets is completed within a 'short period'; and</li> <li>the revaluations are kept up to date.</li> </ul> <p>In the absence of further guidance from CIPFA, we would normally expect this 'short period' to be interpreted as within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>All operational police stations and offices were revalued by Bruton Knowles on 31 March 2014. Police houses (which are also classed as land and buildings) were last revalued on 31 March 2012. Force management have undertaken additional work to estimate the indexed market value at the year end. Where the market value is materially difference from the net book value the carrying value should be adjusted to the market value. The decision not to adjust has been considered a key judgement below and a risk for the audit (see pages 15 and 20)</p>	
<b>Other accounting policies</b>	<b>Both</b>	We have reviewed your policies against the requirements of the CIPFA Code of Practice and accounting standards	Our review of other accounting policies has not highlighted any issues which we wish to bring to your attention.	

**Assessment**

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

-  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
<p><b>Estimates and judgements – pension fund liability</b></p>	<p><b>Both</b></p>	<p><b>PCC and Chief Constable</b></p> <p>The Force is the administering authority for both the 2006 New Police Pension Scheme (NPPS) and the Police Pension Scheme (PPS), both of which are unfunded, defined benefit schemes.</p> <p>The PCC and Force are admitted bodies of the Surrey Local Government Pension Scheme which is a funded, defined benefit scheme.</p> <p>The financial liability for these schemes appears on the Chief Constable's balance sheet and funded by an equal and opposite intra-group revenue from the PCC.</p>	<p>We undertook a detailed review of the actuaries' work to satisfy ourselves that the police officer pension fund liabilities are fairly stated in the financial statements. In doing so, we engaged our own independent actuary to assess the methodology and assumptions used by the scheme actuaries.</p> <p>The value of the police officer pension fund liability is most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> <li>• discount rate;</li> <li>• mortality;</li> <li>• inflation; and</li> <li>• future salary increases.</li> </ul> <p>These factors and their impact on the pension fund liabilities are adequately disclosed in the financial statements.</p>	
<p><b>Going concern</b></p>	<p><b>Both</b></p>	<p><b>PCC and Chief Constable</b></p> <p>The Police and Crime Commissioner and the Chief Constable both have a reasonable expectation that the services they provided will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p><b>PCC audit</b></p> <p>We have reviewed the Police and Crime Commissioner's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p> <p><b>Chief Constable audit</b></p> <p>We have reviewed the Chief Constable's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	

**Assessment**



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

- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Critical Judgements	Comments	Assessment
<b>Judgements</b>	<p><b>Both</b></p> <p>The critical judgements in 2014/15 relate to the potential revaluation of police houses raised as a new risk encountered during our audit on page 15.</p> <p>The decision not to revalue these police houses to their indexed valuation estimated at 31 March 2015 is considered a critical judgement</p>	<p>We highlight the following in relation to this area:</p> <ul style="list-style-type: none"> <li>Judgements have been disclosed appropriately and adequately in note 1 of the PCC's and Chief Constable's financial statements.</li> <li>No evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement.</li> <li>The Chief Constable has direct operational control of police officers and police staff. It is therefore reasonable for the Chief Constable to recognise the full costs of employment for delivering the Police and Crime Plan (which include the leave accrual and accumulated absences) and the liabilities for the defined pension schemes.</li> <li>It has been agreed that due to the reasoning stated on page 15 the police houses do not need to be stated at their indexed valuation and this reasoning has been correctly documented as a critical judgement</li> </ul>	
<b>Estimates</b>	<p><b>PCC</b></p> <p>The items in the Group's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:</p> <ul style="list-style-type: none"> <li>Property, plant and equipment</li> <li>Pensions liability</li> </ul> <p><b>Chief Constable</b></p> <p>The items in the Group's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:</p> <ul style="list-style-type: none"> <li>Pensions liability</li> </ul>	<p>We highlight the following in relation to this area</p> <ul style="list-style-type: none"> <li>Sources of estimation uncertainty have been disclosed appropriately and adequately in note 3 of the PCC's accounts and in note 3 of the Chief Constable's accounts.</li> </ul>	

**Assessment**

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

-  Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.




	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the PCC and the Chief Constable</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from HSBC for bank balances.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis.</li> </ul>
7.	<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>We have reviewed reports issued by Internal Audit in the year. This review did not highlight any instance of material control weaknesses which have impacted on our risk assessment.</li> <li>The Annual Report for the year ended 31 March 2015 has concluded that for the PCC and the Chief Constable there are adequate arrangements in place for governance, risk management and control.</li> </ul>
8.	<b>Annual Governance Statement</b>	<ul style="list-style-type: none"> <li>We have reviewed the final version of the Annual Governance Statements (AGS) and confirm they comply with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the disclosures made are consistent with our knowledge of you and your key strategic risks.</li> </ul>

# Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audits 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. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Pension Benefits Payable.

The matters that we identified during the course of our audits are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	It was observed that auto-accruals which are system generated from purchases orders set up on the accounting system are not reviewed on a regular basis. We encountered some errors in our substantive testing where systems generated accruals raised during the year were incorrectly accounted for at year end.	Review auto-accruals on a regular basis and release those that are no longer valid accruals.
2.	 Amber	It was observed that there is little consistency in how background calculations and audit trails for manual accruals are recorded. Although the accruals/creditors we tested were all (save the 2 auto-accruals mentioned above) validly made, the auditor believes that this is a controls weakness particularly in terms of succession/illness planning where a lack of consistency could cause errors to occur.	A standard working paper for manual accruals should be introduced and completed by all business partners.
3.	 Amber	It was observed in our payroll testing that there was a casual employee registered on the payroll system who had not worked for the Force or been paid since 2011.	Old employees/casual workers who no longer work for the Force should be removed from the payroll system after a reasonable amount of time.  A periodic review of payroll accounts which have not been used for a significant period of time should be introduced.

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audits of the PCC and Chief Constable and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	The payroll system is reconciled to the general ledger on a monthly basis. However, this reconciliation is not formally documented or signed and authorised by a senior member of the finance team. Although regular meetings are held between the payroll team and the finance team to investigate differences, actions undertaken to resolve the discrepancies are not recorded.	<ul style="list-style-type: none"> <li>Formal payroll reconciliations are now carried out on a monthly basis with actions taken to resolve discrepancies recorded.</li> </ul>
2.	✓	Police Pension Fund: reconciling quarterly reports. Review of the Equiniti annual return identified a discrepancy with the value of commutation payments made in the year. Equiniti had not reflected all payments received from the PCC Whilst the amount was not material it is recommended that the PCC undertakes a reconciliation on the information it receives from Equiniti for accuracy.	<ul style="list-style-type: none"> <li>Equiniti commutation payments listings are reviewed against the payments made to ensure that they agree. There is no formal reconciliation, but this is considered a sufficient review control</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed



# Adjusted misstatements – Police and Crime Commissioner financial statements

A number of adjustments to the PCC's draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the PCC audit for which management has agreed to amend the accounts.

## Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account	Balance Sheet	Impact on total net expenditure
<b>1 <u>Grants Income</u></b>  A grant of £453k relating to the Innovation Fund had both been accrued for in the ledger and then also manually adjusted for in the accounts	£453k	£Nil	£453k
<b>2 <u>Auto-Accruals Creditors</u></b>  A £547k auto-accrual in creditors for 3 quarter to March 2014 is no longer a valid accrual and should be reversed out in the 2014/15 year	(£547k)	£547k	(£547k)
<b>Overall impact</b>	<b>(£94k)</b>	<b>£547k</b>	<b>(£94k)</b>

## Adjusted misstatements – Chief Constable financial statements

A number of adjustments to the Chief Constable's draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the Chief Constable audit for which management has agreed to amend the accounts.

### Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account	Balance Sheet	Impact on total net expenditure
<p>1 <b><u>Provision for Police Officer Pension Commutation liability</u></b></p> <p>In May 2015 the Pensions Ombudsman published his determination in a case concerning the lump sum paid to a firefighter on their retirement. Due to a historic use of incorrect commutation factors by GAD (government actuary's department) the lump sum paid was incorrect and should have been a higher value. The case also has relevance to police officers who were part of the police officers' pension scheme and who retired in the early 2000s.</p> <p>A provision for increased future pension payments has been included in the financial statements to account for the future liability that the Chief Constable is likely to incur as a result of the incorrect commutation factors. This provision is off-set by a long-term debtor from the Home Office.</p>	<p>Debit expenditure £5,741k, Credit income £5,741k</p>	<p>Debit grant debtors £5,741k, Credit provisions £5,741k</p>	<p>£Nil</p>
<b>Overall impact</b>	£Nil	£Nil	£Nil

## Misclassifications & disclosure changes – Police and Crime Commissioner financial statements

The table below provides details of misclassification and disclosure changes to the PCC's financial statements, including the group consolidation, identified during the audit which management has agreed to amend in the final set of financial statements.

Adjustment type	Value	Account balance	Impact on the financial statements
1 <b>Disclosure</b>	£1.3m	Note 21 – Commitments under Finance Leases	An amount of £1.3m was still shown for Finance Leases in the draft accounts where the Addlestone lease has actually been written out of the accounts in the sale transaction for Addlestone. As Addlestones is no longer held under a finance lease but instead under a 125 year leasehold, the note has been removed from the accounts
2 <b>Disclosure</b>	£0.6m	Note 8 - Grant Income	The Victim Support Grant of £0.6m which was budgeted within the SERCOP in the year had been omitted from the "Income credited to Police Services" within this note. Note 8 has been amended
3 <b>Disclosure</b>	£2.4m	Note 8 - Grant Income	The council tax freeze grant has been reclassified to Taxation and Non-specific income in this note for 2014/15 where it was shown within the SERCOP in the prior year. It was agreed that for clear comparison the prior year SOCIE classification should be amended. This has no effect on the net expenditure shown.
4 <b>Disclosure</b>	N/A	Notes 12 and 15	There are established plans to change the method of accounting for the collaboration which will significantly change the year end balances in debtors and creditors for the collaboration in 2015/16. These notes have been expanded to explain the likely effect on the future balances.

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

Adjustment type	Value	Account balance	Impact on the financial statements
5 <b>Disclosure</b>	N/A	Notes 1	The potential amount of the indexation revaluation of police houses has been included as a critical judgement in Note 1 to the accounts for full disclosure of issues to the users of the accounts (as the total may be considered material to the users' understanding).
6 <b>Classification</b>	£0.4m	Note 6	£0.4m unapplied revenue to capital contributions misclassified as 'transfer of cash sale proceeds' in Note 6

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## 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

The Code of Audit Practice 2010 (the Code) describes the PCC's and the Chief Constable's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The PCC and the Chief Constable each has proper arrangements in place for securing financial resilience** - the PCC and the Chief Constable each has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The PCC and the Chief Constable each has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the PCC and the Chief Constable are each prioritising their resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings – PCC and CC

### Securing financial resilience

We have undertaken a review which considered the PCC's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

We have summarised our findings around these three expected characteristics in the detailed findings section below.

Subsequent to the publishing of the public interest report on the termination of the SIREN project in July 2014, we have also reviewed your progress against the recommendations within that report and our recommendations made within the Audit Findings Report 2013-14 around SIREN.

Overall our work highlighted 2 recommendations which are included in our action plan in **Appendix B**.

### Challenging economy, efficiency and effectiveness

We have considered the PCC's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

## Overall VfM conclusion – PCC and CC

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the PCC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

## Detailed findings and Residual Risks – Police and Crime Commissioner and Chief Constable

We set out below our detailed findings against six risk areas which have been used to assess the PCC's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>The PCC performed on budget against the gross revenue of £207.3m for the 2014/15 year, while the Chief Constable underspent by £1.8m. £0.5m of this underspend was achieved through collaboration savings while the remainder was mainly due to a freeze in recruitment for specific posts, the recruitment of police officers falling below targeted levels and other in year savings.</p> <p>The PCC's capital budget was £10.1m including £2.2m carried forward from the previous year. Expenditure against this capital budget totalled £7.2m, with the underspend being carried forward to fund on-going projects. There have now been significant underspends against capital budgets for both the 2013/14 and 2014/15 years. There is understandably caution around capital investment due to future budget gaps and the savings requirements to meet these budgetary constraints, but these underspends may be indicative of overly optimistic budgeting and a slowdown in approvals for significant projects.</p> <p>HMIC reviewed Surrey Police expenditure against their peers: this demonstrated that in 2014/15 Surrey's expenditure on front line services increased by £1.4m which was made possible due to savings in expenditure on business support. This demonstrates the effectiveness of the Force in responding to the priority which stakeholders place on frontline services.</p>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Medium Term Financial Plan (MTFP) has been reviewed. To date the Force has saved £2.3m through collaboration with Sussex Police. From March 2015 to March 2017 the Force anticipates making further savings of approximately £8.4m through maintaining and increasing the level of collaboration in Specialist Crime and Operations Command; and increasing the level of new collaboration initiatives within Contact &amp; Deployment, Support Services and Corporate Services. These savings constitute approximately half of the savings targets for the 2015/16 and 2016/17 financial years and as currently planned continued collaboration will be key to achieving a balanced revenue budget in future years.</p>	<b>Green</b>

## Detailed findings and Residual Risks – Police and Crime Commissioner and Chief Constable (continued)

Theme	Summary findings	RAG rating
<b>Strategic financial planning (continued)</b>	<p>The Force has scored well in Financial Resilience tests issued by HMIC (they surmised that the Force has a strong track record of achieving savings early and an affordable and sustainable operating model). This finding is supported by our own work and the force and PCC continue to respond with agility to the continued challenges posed by austerity. The plans for savings and collaboration in the medium term are ambitious but achievable. However there remains a risk that some of the assumptions underpinning savings are optimistic and the savings which eventually materialise could be less than anticipated.</p> <p>The longer term outlook is challenging; a further £5.7m of savings need to be made to achieve a balanced revenue budget in the 2017/18 and 2018/19 years. These savings have not yet been identified, but as a temporary measure the current plan is to utilise reserves to plug this deficit and maintain services. The PCC has healthy levels of reserves, but they can only be used once and it will be important that decisions about how best to use them balanced between short term tactical decisions to manage in year budget pressures and investment in transformation projects which will deliver a longer term sustainable operating model.</p> <p>Income forecasts underpinning the MTFP include assumptions of a continuing 2% increase in the precept, as well as a 0.3% annual increase in the tax base. Along with these, other key assumptions in the MTFP have been reviewed and we have concluded that they are reasonable and not overly optimistic.</p>	<b>Green</b>
<b>Financial governance</b>	<p>Stage 2 transfer between the Police &amp; Crime Commissioner and the Chief Constable from 1 April 2014 prompted a governance review. This resulted mainly in changes which clarified processes but it was taken as an opportunity to more closely align governance documentation between Surrey Police and Sussex Police.</p> <p>There are sound governance process in place around finances. There are detailed processes and meetings in place such as:</p> <ul style="list-style-type: none"> <li>- monthly management meetings where financial performance is scrutinised in detail by the PCC, Deputy PCC, Chief Executive and Treasurer;</li> <li>- Quarterly scrutiny meetings allowing more detailed interrogation of performance over the quarter;</li> <li>- Quarterly joint Audit Committee meetings to provide an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards;</li> <li>- Gold Groups in which high profile incidents or themes are governed;</li> <li>- Collaboration Board co-chaired by the Deputy PCC which oversees the collaboration processes between Surrey and Sussex.</li> </ul> <p>These processes should mitigate against the risk of uncontrolled decision making, and ensure that there is a clear and documented decision process audit trail.</p>	<b>Green</b>



## Detailed findings and Residual Risks – Police and Crime Commissioner and Chief Constable (continued)

Theme	Summary findings	RAG rating
<b>Financial governance (continued)</b>	<p>We have observed in our summary of progress against the SIREN recommendations that the increasing complexity of governance around joint decision making in collaboration with Sussex Force presents a risk of loss of agility in decision making. As your collaboration with Sussex and other bodies increases it will be important to ensure governance arrangements are reviewed and updated.</p> <p>We have included a recommendation in our action plan to review this area (see <b>Appendix B</b>).</p>	<b>Green</b>
<b>Financial control</b>	<p>During our audit we have documented the financial controls in place in the areas which we consider to be at greatest material risk for errors and misstatements. We concluded that there were no significant deficiencies. There were, however, a number of less significant deficiencies which may not in themselves result in material misstatement but should be addressed as good practice (see <b>Appendix A</b>).</p> <p>As part of our interim audit we analytically reviewed the budget setting during the year. It was noted that budgets are produced in a sufficiently granular detail to observe performance across business segments and geographical areas.</p>	<b>Green</b>
<b>Prioritising resources</b>	<p>Project management and the prioritisation of resources has been discussed and reviewed in detail within our SIREN update below.</p> <p>We discussed with management whether it would be appropriate to generate contingency MTFPs based on alternative levels of collaboration with Sussex Police and other partners. Currently a full merger is not feasible due to legal constraints and also the different funding levels of the two forces, so financial planning has not been considered for this option. Management also argue that as collaboration plans are so advanced and essentially fixed by past decisions alternative MTFPs are not necessary and the current MTFP can be "flexed" for the different levels of savings which might be achieved if plans do not proceed as expected. There is significant uncertainty in the police sector at the moment which makes scenario planning more difficult than it might have been previously. As some of these factors crystallise it will be important that MTFP and underlying models are revisited, in particular the impact on current savings plans and investment decisions.</p> <p>Following the advice of the Surrey LGPS actuary you made a one off payment of £2.5m against your local government pension scheme liability. This payment pays off accrued interest and also some of the capital; reducing future interest payments. This payment, plus a payment made in 2015/16 will result in approximately £0.5m of revenue savings in future years. It represents an appropriate use of excess funds particularly in light of the relatively low level of interest which can currently be generated through your treasury management activity.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The delivery of savings and service redesign has been discussed above. An additional concern was the level of staff turnover in the Force, which at 600 leaving per year, was higher than most other Forces. The main explanation for this has been the high cost of living in Surrey and the 'pull' from London, but staff satisfaction in the Force has also declined in the 2014/15 year. This is a concern in terms of capacity and capability levels within the Force and may also impact on anticipated future savings and efficiencies, where training and recruitment costs increase and absorb some of the planned savings. The Force is exploring options on reward and recognition packages for staff and officers and will present a business case to the PCC for decision in due course. We have included a recommendation relating to this in the action plan (see <b>Appendix B</b>).</p>	<b>Green</b>

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# Value for Money – SIREN Update

The recommendations in the public interest report on the termination of the SIREN project are clearly still at the forefront for those involved in project management processes and governance. It is encouraging to note that all of the recommendations which were issued have been addressed in some way; and a significant number have now been fully implemented in practice.

## Progress Summary

The Project Management Office (PMO) team has been established to fully review and report on progress against major projects. The Programme and Project Management (PPM) Manual has also been substantially developed since our previous review. The PPM is owned by the PMO which has a pool of project consultants who are assigned to major projects to ensure a consistency of approach. One of the roles of these consultants is to ensure that appropriate lessons learned from previous projects are picked up at the initiation of new ones. These lessons learned are compiled in closedown, reported to the PMO and are now published on the intranet in a searchable format so that they can be easily referred to in future. A full day intelligence review workshop was also carried out to share lessons learned.

Project monitoring has improved significantly and is much more closely aligned to best practice. Highlight reports are now produced on a monthly basis for all projects valued over £1m in cost. The reports summarise the budget, forecast, actuals and variance position. Benefits mapping is being used to monitor delivered benefits as against those expected and Enterprise Project Management software which includes a staff time recording function is being piloted by ICT before rollout to all project managers. This will ensure that the effort and finance expended on projects is monitored against business benefits delivered.

Procurement is now much more closely monitored; external procurement advisers are utilised for very significant amounts, and procurement officers have been assigned internally and aligned with key stakeholder departments.

Importantly, separation has been maintained between the role of the Business Change Manager and the Project Manager. This ensures a healthy tension within the project management process. The number of projects across the force has also been streamlined through prioritisation of those forecast to deliver significant benefits.

We are encouraged by the continued investment in training in this area: SRO and Benefits Management training has already taken place, while there will be mandatory project management training for all further staff involved at a management level.

## Continuing Risks around Project Management

The only severe risk identified in the Forces risk register is the limited capacity to deliver the change planned in the immediate future. The mitigation of this risk is the ability to commission resource externally and there are frameworks available to the Force to do this.

The increasing complexity of governance and decision making is a concern, particularly as it relates to collaboration with Sussex and other potential partners. The PCC's role as a critical friend holding the Force to account for delivery against the Police and Crime Plan is key to the overall governance structure and must continue as a priority role despite other political factors gaining momentum in the coming year. Our review of SIREN highlighted the importance of clarity around the roles and responsibilities of members of the Office of the PCC on programme and project boards. As governance arrangements develop it is important that these roles are continually reviewed and any changes clearly articulated and understood by all stakeholders.

There are now multiple risk registers in place: a joint risk register between Surrey and Sussex Forces, and an individual risk register alongside departmental registers. Along with the complex governance arrangements, this increases the potential for loss of focus on major risks and a slowness of response/decision making.

# Update on prior year value for money recommendations

## Priority

**High** - significant effect on control system

**Medium** – effect on control system

**Low** – best practice

Rec No.	Recommendation	Priority	Management update on progress	Implementation date & responsibility
1.	Ensure there is regular (monthly) review and progression of the actions to ensure they are implemented, measured and assessed in delivering the anticipated outcomes.	M	<p>A Project Management Office (PMO) team has been established to fully review and update management on progress against major projects.</p> <p>A benefits mapping digital sheet is to be completed for each active project.</p> <p>Highlight reports are now produced on a monthly basis to report budget, forecast, actuals and variance on expenditure for each project. There is however not a clear consistent policy on the inclusion of overhead costs in these project updates (taken as a new recommendation to our action plan in <b>Appendix B</b>).</p>	<p><b>In progress</b></p> <p>Jane Harwood ACO Support Services.</p>
2.	Identify and suitably train SROs and Senior Users to ensure they are able to specify and understand their information need, challenge and contribute to the continuous improvement of the Project Management Arrangements.	M	<p>Training has been provided by Outperform.co.uk. Sussex officers are also attending the same training so that the knowledge of cross-force project teams will be maintained.</p> <p>A process manual for staff involved in change delivery is also in progress.</p> <p>Lessons learned from prior project delivery are now compiled and published in an easily searchable format on the intranet.</p>	<p><b>Completed</b></p> <p>Jane Harwood ACO Support Services.</p>

## Update on prior year value for money recommendations (continued)

### Priority

**High** - significant effect on control system

**Medium** – effect on control system

**Low** – best practice

Rec No.	Recommendation	Priority	Management update on progress	Implementation date & responsibility
3.	Seek professional affiliation for both the Surrey and Sussex forces e.g. with the Association of Project Management (APM) and encourage staff in this field to register and participate in learning events.	M	Membership to a professional body for those involved in project management is still being considered, in addition to the training above	<b>Interim review September 2015</b> Jane Harwood ACO Support Services.
4.	As soon as practicable reduce the number of active projects against an agreed set of criteria which contribute to the overall future vision for the two Forces.	M	A formal method for evaluating programmes against objective criteria such as strategic fit, value for money (including cost/benefit analysis) and achievability was endorsed to support future decision-making.  Prioritisation and identification of duplicated efforts/benefit profiles has significantly reduced the number of active projects	<b>Completed</b> Jane Harwood ACO Support Services.
5.	Carry out a further audit of the Project Management Office in 6 months' time.	L	Internal audit have completed a project management audit. This concluded that controls were suitably designed, consistently applied and effective.  A recommendation for further review of governance/approval arrangements and highlight reports has been included in our action plan in <b>Appendix B)</b>	<b>Completed</b> Jane Harwood ACO Support Services.

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## 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

We confirm below our final fees charged for the audit.

## Fees services

	Per Audit plan £	Actual fees £
Police and Crime Commissioner audit	51,610	51,610
Chief Constable audit	20,000	20,000
<b>Total audit fees</b>	<b>71,610</b>	<b>71,610</b>

## Fees for other services

Service	Actual fees £
Audit related services	Nil
Review of whistle-blowing arrangements – fees relating to the 2015/16 financial year	18,770

## 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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standards.

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## 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 those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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 audits, 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](http://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 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
<b>Our communication plan</b>		
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 reports		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



# Appendices

## Appendix A: Action plan for financial statements audits for the Police and Crime Commissioner and the Chief Constable

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Review auto-accruals on a regular basis and release those that are no longer valid accruals.	M		
2	A standard working paper for manual accruals should be introduced and completed by all business partners.	M		
3	Old employees/casual workers who no longer work for the Force should be removed from the payroll system after a reasonable amount of time.  A periodic review of payroll accounts which have not been used for a significant period of time should be introduced.	M		

### Priority

**High** - significant effect on control system

**Medium** – effect on control system

**Low** – best practice

## Appendix B: Action plan for value for money conclusion audit for the Police and Crime Commissioner and Chief Constable

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Establish clear policies and processes on the inclusion of overhead costs in financial reporting for the Project Management Office.	M		
2	Carry out a review of: <ul style="list-style-type: none"> <li>- governance arrangements around Project Management Office processes, collaboration, and project milestone approvals to see if there are potential efficiencies;</li> <li>- the highlight reports to ensure they reflect a true and fair snapshot of project progress and outlook on a monthly basis</li> </ul>	M		
3	An action plan should be in place to reduce the high staff turnover which presents a significant risk to the overall efficiency and effectiveness of the Force	M		

### Priority

**High** - significant effect on control system

**Medium** – effect on control system

**Low** – best practice

# Appendix C: Audit opinion for the Police and Crime Commissioner

**We anticipate we will provide the PCC with an unmodified audit report**

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

We have audited the financial statements of the Police and Crime Commissioner for Surrey for the year ended 31 March 2015 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 Surrey 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 2014/15.

This report is made solely to the Police and Crime Commissioner for Surrey, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, 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 2014/15, 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 also 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 Group's explanatory foreword and the annual governance statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2015 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 2015 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 2014/15 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword the Annual Governance Statement 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- 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 have nothing to report in these respects.

Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Police and Crime Commissioner and the auditor

The Police and Crime Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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 its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Police and Crime Commissioner has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Police and Crime Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, the Police and Crime Commissioner for Surrey put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner for Surrey in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[OR  
Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Police and Crime Commissioner's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

[Signature]

[Insert Engagement Lead Name]for and on behalf of Grant Thornton UK LLP, Appointed Auditor

[Office address]

[Date] 2015

# Appendix D: Audit opinion for the Chief Constable

**We anticipate we will provide the Chief Constable with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR SURREY

We have audited the financial statements of the Chief Constable for Surrey for the year ended 31 March 2015 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 Surrey 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 2014/15.

This report is made solely to the Chief Constable for Surrey, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, 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 2014/15, 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 also 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 and the annual governance statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2015 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 2014/15 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword and the Annual Governance Statement 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 have nothing to report in these respects.

Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Chief Constable and the auditor

The Chief Constable is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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 its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014 .

We report if significant matters have come to our attention which prevent us from concluding that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Chief Constable has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, the Chief Constable for Surrey put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable for Surrey in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[OR

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Chief Constable's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

[Signature]

[Insert Engagement Lead Name]

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

[Office address]

[Date] 2015



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