

The Joint Audit Findings for Surrey Police and Crime Commissioner and the Chief Constable of Surrey

Year ended 31 March 2016

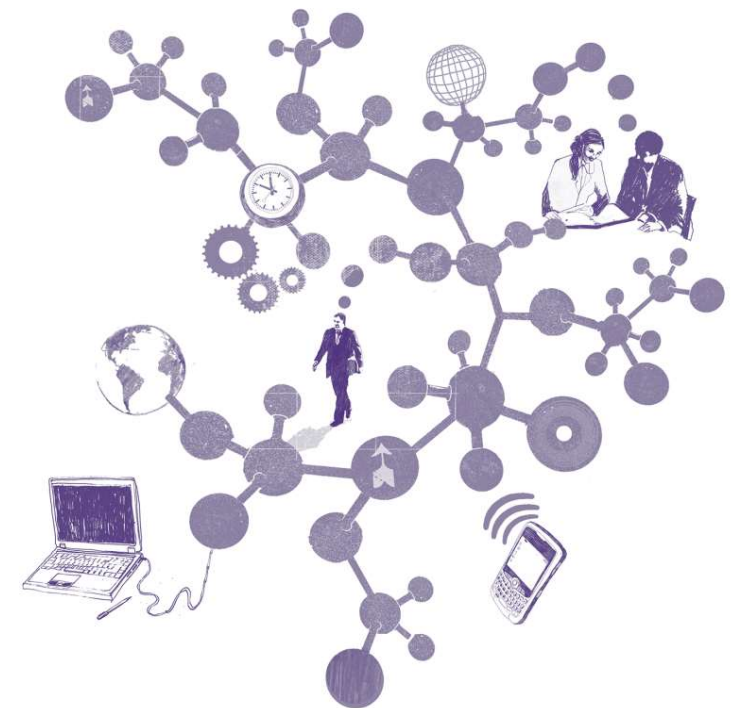
September 2016

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21 September 2016

Dear David and Nick,

Audit Findings for Surrey Police and Crime Commissioner and the Chief Constable of Surrey for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audits of the Police and Crime Commissioner and Chief Constable for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. 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 the report have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is 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. The audit of the financial statements 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 and giving a value for money conclusion. 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 management, 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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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	30
4. Fees, non-audit services and independence	40
5. Communication of audit matters	42

Appendices

- A Action plan
- B Audit opinion in respect of the PCC and Group financial statements
- C Audit opinion in respect of the Chief Constable's financial statements

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Surrey Police and Crime Commissioner ('the PCC') and the Chief Constable of Surrey and the preparation of the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the PCC's and the Chief Constable's financial statements give a true and fair view of the financial position of the respective bodies and their income and expenditure for the year and whether the financial statements have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider whether other information published together with the audited financial statements is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the PCC and the Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide conclusions whether in all significant respects, the PCC and the Chief Constable have each put in place proper arrangements to secure value for money through economic, efficient and effective use of their resources for the relevant period.

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our Financial Statements audit we have not had to alter or change our audit approach, which we communicated to you in our Joint Audit Plan dated June 2016. We have added one new risk to our value for money work after our initial meeting with the new PCC. The risk we added is Policing in Your Neighbourhood (see page 37).

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements of both the PCC and Chief Constable including their Annual Governance Statements to confirm that agreed changes have been made, conduct final checks and castings;
- 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 draft financial statements and accompanying working papers at the commencement of our audits in accordance with the agreed timetable. The timetable for the production and audit of financial statements is changing and from 2017/18 the requirement will be to publish audited financial statements by 31 July. There are opportunities to refine and improve the accounts closedown and audit process. We have planned a detailed debriefing session for October to explore and take forward these opportunities.

Key audit and financial reporting issues

Financial statements opinion

We have identified £425k of adjustments affecting the PCC's reported financial position, leading to £425k of adjustments affecting the group (details are recorded in section two of this report). The draft financial statements for the group for the year ended 31 March 2016 recorded net income of £245.9m; the audited financial statements show net income of £246.3m. This change is primarily driven by changes made to the revaluation of police houses and the accounting entries for this revaluation. We have recommended a number of changes and updates to disclosures to ensure that all disclosures and notes are consistent throughout the accounts and that disclosures are in line with the CIPFA Code of Practice (further details in Section 2 to this report). Finally we have requested a number of minor amendments to improve the presentation of the accounts.

The key messages arising from our audit of the PCC's and 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, in particular the audit trail provided to support some areas of the financial statements could be improved
- management's judgements in key areas were reasonable

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable (see Appendix B). We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements (see Appendix C).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with each of the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement, Annual Report or Narrative Report do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits.

Controls

Roles and responsibilities

The PCC's and Chief Constable's management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the systems of internal control.

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 Chief Constable.

Findings

We identified a number of potential improvements in the processes for revaluing property, plant and equipment. In particular the need for effective communication between the Finance and Estates Teams. Further details are set out in section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the PCC and Chief Constable each had proper arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

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

The way forward

Matters arising from the financial statements audits and our review of the PCC's 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 plan at Appendix A. Recommendations have been discussed and agreed with management and those charged with governance, and their responses are included.

Acknowledgement

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

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

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04. Fees, non audit services and independence

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Materiality

In performing our audits, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our joint audit plan, we determined overall materiality for the financial statements as a proportion of the smaller of the prior year gross revenue expenditure of the group. This was £4,736k (being 2% of gross revenue expenditure of the group for 2014/15). We have considered whether this level remained appropriate during the course of the audits and have made no changes to our overall materiality on the basis that the group gross revenue expenditure for 2015/16 did not change significantly from the prior year.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £237k.

As we reported in our audit plan, we did not identify any items where separate materiality levels are appropriate in accordance with ISA 320.

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 Joint 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 / Chief Constable / Both?	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Both	<p>PCC and Chief Constable audits</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government; • for the Chief Constable opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions; and • the culture and ethical frameworks of local authorities, including Surrey PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. <p>As part of our audit work we still completed the following to gain assurance over the recognition of revenue:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies; and • testing of material revenue streams, including review of unusual significant transactions. 	<p>PCC and Chief Constable audits</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 / Chief Constable / Both?	Work completed	Assurance gained and issues arising
2	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Both 	<p>PCC and Chief Constable audits</p> <ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management; testing of journal entries; and review of unusual significant transactions. 	<p>PCC and Chief Constable audits</p> <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues in either the PCC or Chief Constable accounts.</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 Joint Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Both	<p>PCC and Chief Constable audits:</p> <ul style="list-style-type: none"> undertaken walkthrough testing to confirm that controls are implemented as per our understanding; substantive testing of a sample of expenditure recorded on the accounting system to supporting documentation and payments; testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts; testing for correct treatment of payments either side of balance sheet date; and testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces. 	<p>PCC and Chief Constable audits:</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Employee Remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Both	<p>PCC and Chief Constable audits:</p> <ul style="list-style-type: none"> undertaken walkthrough of the key controls to assess whether those controls are designed effectively trend analysis of the employee remuneration expenditure month by month and by comparison to the prior year substantive testing of sample of payments through payroll to supporting records to assess whether they are in line with contractual amounts testing of reconciliation of payroll records to general ledger testing of starters and leavers to gain assurance over completeness of payroll through random sampling of payroll transactions review and of other remuneration disclosures and confirmation of these (employee numbers, redundancy packages, senior officers remuneration) to supporting schedules and evidence 	<p>PCC and Chief Constable audits:</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<p>Police Pensions Benefits Payable</p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>Chief Constable</p>	<p>Chief Constable audit:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively 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 reconciled the amounts of benefits notified to Surrey Police Force by Equiniti to the amounts recognised in the accounts performed analytical review on the benefits paid to gain assurance that they are not materially misstated review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD substantive testing of a sample of payments made in respect of lump sum/commutation benefit payments 	<p>Chief Constable audit:</p> <p>Subject to completion of the work set out on page 5 to this report (final senior management and quality review), our audit work to date has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<p>Valuation of property, plant and equipment</p>	<p>The PCC revalues its assets on a rolling basis over a five year period.</p> <p>The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>PCC</p>	<p>PCC audit:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • Review of the completeness of the property revaluation against the accounts fixed asset register and the Estates Team's records of properties owned; • discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding; • testing of revaluations made during the year to ensure they are input correctly into the PCC's asset register; and • evaluation of the critical judgement and assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>PCC audit:</p> <p>Our review of the instructions and data provided to the valuer identified a total of 29 discrepancies between the Estates Team records for police house properties, the Finance Team fixed asset register and the properties which were revalued. Management further investigated these discrepancies and details are shown on pages 23/24 to this report along with three internal control recommendations around the valuation processes which we have made as a result of this work.</p> <p>In this work we identified a known understatement in the revaluation of police houses of £335k which was through omissions/errors in the accounting for the police house revaluation. We also identified a known understatement in assets held for sale of £90k which was through omissions of 5 parcels of land on Estates records from the Fixed Asset Register. Management have decided to adjust for both of these in the financial statements (see page 26).</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<p>Valuation of pension fund net liability</p>	<p>The Chief Constable's 2 pension fund assets and liabilities (Local Government Pension Fund Scheme and the Police Officer Pension Fund Scheme) as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>Chief Constable</p>	<p>Chief Constable audit:</p> <ul style="list-style-type: none"> • identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. • review of the reasonableness of the actuarial assumptions made; and • review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Chief Constable audit:</p> <p>Subject to completion of the work set out on page 5 to this report (final senior management and quality review), our audit work to date has not identified any significant issues in relation to the risk identified.</p>

Group audit scope and risk assessment


ISA (UK&I) 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.

Component	Significant?	Level of response required under ISA 600	Work completed	Assurance gained & issues raised
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the financial information and the consolidation process.
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the financial information and the consolidation process.

Accounting policies, estimates and 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 PCC's and Chief Constable's financial statements.

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
Revenue recognition	Both	<p>PCC</p> <ul style="list-style-type: none"> 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. 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. <p>Chief Constable</p> <ul style="list-style-type: none"> Revenue from the PCC is recognised as an intra-group adjustment. 	<p>PCC audit</p> <ul style="list-style-type: none"> The accruals concept and method of grant recognition are appropriate policies under the Code of Practice on Local Authority Accounting. 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)). 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. <p>Chief Constable audit</p> <ul style="list-style-type: none"> 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. 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. <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
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
<p>Cost recognition</p>	<p>Both</p>	<p>PCC</p> <ul style="list-style-type: none"> 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. 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. <p>Chief Constable</p> <ul style="list-style-type: none"> 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. The accounts reflect the normal accruals concept whereby costs for services are included in the year to which they relate. 	<p>PCC audit</p> <ul style="list-style-type: none"> 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. <p>Chief Constable audit</p> <ul style="list-style-type: none"> Management have included police officer and police staff employee remuneration in the Chief Constable's Comprehensive Income and Expenditure Statement. 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. Other expenditure is incurred by the Chief Constable to fulfil the objectives set out by the PCC in the Police and Crime Plan. 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. 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. <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
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
Property, Plant and Equipment	PCC	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 4.1.2.38) 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> <p>the revaluation within the class of assets is completed within a 'short period'; and the revaluations are kept up to date.</p> <p>A short period for property, plant and equipment is interpreted to mean that assets are normally measured once every five years for each class of assets – provided that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.</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) have revalued in this financial year on 31 December 2015.</p> <p>Force management have undertaken additional work to estimate the indexed market value of the police houses at the year end. Where the market value is materially different from the net book value the carrying value should be adjusted to the market value. Management have concluded that the carrying amount for police houses at 31 March 2016 does not differ materially from the current value at this date. We have carried out our own assessment of the potential movement in value between 31 December 2015 and 31 March 2016 and we agree that this is reasonable.</p> <p>The same assessment must be made over other land and buildings as to whether the carrying amount (as per the valuation on 31 March 2014) differs materially from the current value at 31 March 2016. The decision not to adjust has been considered a key judgement below and a risk for the audit (see pages 14 and 21)</p>	
Other accounting policies	Both	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
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
Estimates and judgements – pension fund liability	Both	<p>PCC and Chief Constable</p> <p>The Force is the administering authority for the 2015 New Police Pension Scheme, the 2006 New Police Pension Scheme (NPPS) and the 1987 Police Pension Scheme (PPS), all 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"> • discount rate; • mortality; • inflation; and • future salary increases. <p>We are still completing our work in this area, but subject to completion of our work on page 5 we are anticipate concluding that these factors and their impact on the pension fund liabilities have been adequately disclosed in the financial statements.</p>	●
Going concern	Both	<p>PCC and Chief Constable</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>PCC audit</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 2015/16 financial statements.</p> <p>Chief Constable audit</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 2015/16 financial statements.</p>	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

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Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Judgements	<p>Both</p> <p>The critical judgements in 2015/16 relate to the potential revaluation of land and buildings (excluding police houses).</p> <p>The decision not to revalue these assets to their indexed valuation estimated at 31 March 2016 is considered a critical judgement</p>	<p>Management have obtained the opinion of their independent valuer on potential movements in the value of these assets from 31st March 2014 to 31st March 2016. The valuer concluded that investment yields have softened over the period but rents have increased. These factors have largely balanced each other out and they do not therefore consider there to be any appreciable difference in value between the two dates.</p> <p>Management have referenced this professional opinion in their critical judgement not to revalue these assets. We have carried out our own assessment of potential movements in valuation of these assets by reference to professional market indices, and we agree that this critical judgement is reasonable.</p>	●
Estimates	<p>PCC</p> <p>The items in the Group's Balance Sheet at 31 March 2016 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"> • Property, plant and equipment • Pensions liability <p>Chief Constable</p> <p>The items in the Group's Balance Sheet at 31 March 2016 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"> • Pensions liability 	<p>We highlight the following in relation to this area</p> <ul style="list-style-type: none"> • 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. 	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> 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.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from each of the PCC and Chief Constable.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from HSBC for bank balances.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis.
8.	Internal Audit	<ul style="list-style-type: none"> 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. The Annual Report for the year ended 31 March 2016 has concluded that for the PCC and the Chief Constable there are adequate arrangements in place for governance, risk management and control.
9.	Annual Governance Statement	<ul style="list-style-type: none"> 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.
10.	Matters on which we report by exception	<ul style="list-style-type: none"> We have not identified any issues we would be required to report by exception in the following areas.
11.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> Note that full procedures are not required as the PCC Group does not exceed the threshold.


Internal controls

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



Our audit 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, Property Plant and Equipment Revaluations and Fair Value Adjustments and Police Pension Scheme Benefit Payments as set out on pages 12 to 15 above.

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



The matters that we identified during the course of our audit 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	<p>Property Plant and Equipment: Revaluations</p> <p>It was observed that there were 8 errors or omissions made in putting police house revalued amounts into the fixed asset register and accounts at the 2015/16 year end. This resulted in a total known understatement of PPE in the accounts totaling £335k.</p> <p>Although this total is well below our materiality, management have decided to adjust these in the financial statements and these have been shown within the schedule of adjusted misstatements on page 26.</p>	<p>A full reconciliation process should be undertaken between the expert valuer's work and the amounts shown in the accounts. Any differences should be identified and fully investigated. This work should be counter-reviewed by a separate Finance Team officer and signed as reviewed.</p>



Assessment

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

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	 Amber	<p>Property Plant and Equipment: Revaluations</p> <p>It was observed that there were 14 parcels of land/property which were recorded by the Estates Team as Surrey Police property but which were not recorded in the fixed asset register or accounts and were not revalued at the 2015/16 year end.</p> <p>Management carried out further investigation into these assets. Evidence was provided and agreed by the auditors demonstrating that 9 of these assets did not need to be included in the fixed asset register or accounts as they had either been sold already or they were already included in the title of other properties on the register.</p> <p>The 5 other assets were shown to be pieces of land which were being actively marketed by Estates but which had been omitted from the fixed asset register and accounts in error. These had a total estimated value (provided by Bruton Knowles) of £90k. Management have decided to adjust for this error in the financial statements (see page 26).</p>	<p>The Finance Team should complete a regular reconciliation between the Fixed Asset Register and the estates system, with variances being investigated and cleared in a timely manner.</p>
3.	 Amber	<p>Property Plant and Equipment: Revaluations</p> <p>It was observed that there were 7 police house/land assets over which there was some lack of agreement over the proportion of Surrey Police's extent of ownership. As a result, management had applied a judgement that due to the uncertainty the prudent approach was to retain these assets at their prior historic cost/valuation.</p> <p>As the amounts are not material we agree that the judgement does not need to be disclosed in the notes to the accounts, and that any discrepancy between the carrying value and current value of these assets at 31 March 2016 could not be material.</p> <p>The CIPFA code guidance states that a revaluation should be applied to all assets within a classification.</p>	<p>The extent of ownership of your assets should be agreed and any use of judgement clearly documented.</p>

Assessment

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

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	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.	<ul style="list-style-type: none"> We are satisfied that management is now correctly reviewing system generated auto-accruals.
2.	✓	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.	<ul style="list-style-type: none"> There is a standard spreadsheet in use by the finance team with a brief descriptive commentary on the reasoning behind the manual accrual. We would still recommend that information on this spreadsheet could be more detailed to allow another user to fully understand the calculation basis of the accrual.
3.	✓	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.	<ul style="list-style-type: none"> We understand that the payroll team have been reviewing the system for any further incidents of this nature. We have not encountered any similar issues this year and are satisfied that this was an isolated incident.

Assessment

✓ Action completed

X Not yet addressed

Adjusted misstatements – Police and Crime Commissioner financial statements

The table below provides details of adjustments identified during the audit which have been made within the final set of financial statements. Those charged with governance are required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	Understatement of Property, Plant and Equipment (through omissions/errors in the accounting for the police house revaluation)	(£335k)	£335k
2	Understatement of Assets Held for Sale (through omissions of parcels of land on Estates records from the Fixed Asset Register)	(£90k)	£90k
	Overall impact	(£425k)	£425k

Misclassifications and disclosure changes – Police and Crime Commissioner financial statements

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Statement of Comprehensive Income and Expenditure agreement	(£6.8m) surplus on revaluation of Property, plant and equipment assets reflected in the group totals but not the PCC totals	Total Comprehensive Income and Expenditure	This was a casting error identified by the Corporate Finance Team – it did not affect the Total Comprehensive Income and Expenditure for the group or how this followed through to the movements in reserves.
2 Financial Instruments	Increase “Financial liabilities at amortised cost” by £7.6m and increase “Loans and receivables by £2.3m	Note 30 Financial Instruments	In this instance, payments/receipts in advance had been netted off against the liabilities/assets owed to them. As these assets/liabilities were not netted off in the balance sheet, the netting off process was not appropriate. This was agreed to CIPFA guidance on the appropriate treatment.
3 Cash Flow Statement	Increase “Cash paid to and on behalf of employees” by £5m, reduce cash outflows for “Other operating activities” by £5m, increase cash inflows from “Other government grants” by £1.8m and increase cash inflows from “Other receipts from operating activities”	Cash Flow Statement for the PCC and the Group	This was an internal consistency issue as the Cash Flow Statement had not been updated to agree to other notes in the accounts. It did not have any impact on the Comprehensive Income and Expenditure and the change did not affect the Total Net Decrease in Cash and Cash Equivalents over the year.

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
4 SERCOP Reclassification	<p>Current year £4.6m expenditure reclassified £0.3m income reclassified</p> <p>Prior year £4.6m expenditure reclassified £0.3m income reclassified</p>	SERCOP expenditure and income	This is a reallocation in the allocation of expenditure and income in SERCOP for presentation of the functional analysis in a way more appropriate to the new structure in place. This adjustment was brought to our attention by management. Note: the total income and expenditure has not been adjusted in the current year or prior year by this reallocation.
5 Pension Fund Account adjustment	DR employer contributions £1.95m CR additional funding payable by local policing body (£1.95m)	Pension Fund disclosure	This adjustment was brought to our attention by management before the on-site audit work began. There is no impact on the financial statements – due to the reduction in the employer contribution rate in the year from 24.2% to 21.3%, the 2.9% reduction is shown as additional funding payable by the local policing body (as the police pensions top up grant will be reduced by the difference between the contribution rates).
6. Lease Commitments	Increase to future operating lease commitments for land and buildings disclosed of £0.4m. Inclusion of lease commitments for vehicles, plant and equipment of £0.2m.	Note 20 – Commitments Under Operating Leases	This was a disclosure error only with no effect on the Statement of Comprehensive Income for 2015/16.

Misclassifications and disclosure changes – Chief Constable financial statements

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Casting error in the Balance Sheet	Total Current Assets changed from Nil to £6.7m	Current Assets	This was a casting error and to agree the Balance Sheet to the prior year signed accounts. The amounts relating to the CC in the PCC/group accounts were correct and casted correctly

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

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the PCC and Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at both the Office of the PCC and the Force. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the PCC and Chief Constable have put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in May 2016 and identified the following significant risks to overall value for money, which we communicated to you in our Audit Plan dated June 2016.

- You have delivered significant savings over the past 5 years. You will need to deliver current savings plans to manage the impact of funding reductions and growth pressures over the next spending review. Your plans anticipate a surplus in the later periods which you plan to invest in key areas of service delivery. There is a risk over future investment and value for money delivery if savings plans are not fulfilled;
- In its most recent PEEL assessment the Force was rated as "Requires improvement" in both the Effectiveness and Efficiency strands;
- You have a history of collaborating with Sussex Police and are looking to expand this to a four force model including Thames Valley and Hampshire. Government have also announced proposals on the devolution of power to Local Authorities and legislations which will enable integration between police and fire services;
- Recognising that ICT capability has a significant bearing on an efficient and connected organisation, you are carrying out a strategic review of this area;
- You are currently in a period of transition with a number of senior officers acting in temporary roles and a newly elected PCC in place;
- The Policing in Your Neighbourhood (PiYN) was introduced in April 2016 by the force to address the changing demand for police services

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the PCC's and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the PCC's and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- The Force has a balanced Medium Term Financial Plan over the period to 2019/1920 and that the planning assumptions within this are reasonable;
- savings targets in the 2016/17 plan and the Medium Term Financial Plan are realistic with regard to previous savings targets achievement and performance against the 2016/17 in the year to date;
- The Force has detailed and robust plans to address the findings of the HMIC PEEL assessments that the Force "Requires improvement" in both the Effectiveness and Efficiency strands. These plans include the PiYN operating model and new training programs and have been through appropriate decision-making and governance processes and are now being implemented with suitable oversight;
- The Force continues to proactively collaborate with other local agencies to realise operational and financial benefits

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 33 to 38.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Chief Constable and the PCC has proper arrangements in all significant respects to ensure you delivered value for money in your use of resources. The text of our reports, which confirm this, can be found at Appendices B and C.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Strategic plan and financial strategy You have delivered significant savings over the past 5 years. You will need to deliver current savings plans to manage the impact of funding reductions and growth pressures over the next spending review. Your plans anticipate a surplus in the later periods of the current spending round which you plan to invest throughout the period in key areas of service delivery.</p>	<ul style="list-style-type: none"> • Review of the new Business Plan • Review of the Medium Term Financial Plan, including the assumptions that underpin the plan. • Review of the capital strategy • Understand how savings are identified and monitored to ensure that they support the delivery of budgets. 	<p>Your new Business plan set a balanced budget for the 2016/17 financial year, with a council tax precept increase of 1.99%. The Home Secretary has written to all PCCs confirming that for planning purposes a 2% precept increase will be used as the referendum trigger, so we are satisfied that this is a reasonable basis for financial planning.</p> <p>Funding from government is budgeted to fall by £0.6m, but the total budget funding will increase by £6.9m overall due to the increase in the precept and your use of reserves. Your general reserves strategy is to maintain a balance that does not fall below 3% of the budget while employing £6.4m of reserves to lessen impacts of savings on service delivery. You have earmarked specific reserves for future financial risks which you have identified via your horizon scanning.</p> <p>The current Medium Term Financial Plan (MTFP) runs to 2019/20. The increase in the level of precept is the primary assumption which we have agreed is reasonable as stated above. Specific grants and future funding commitments have been factored into the forward plan on a reasonable basis and we do not believe that any of this funding is unrealistic. The future savings targets are set based on a 1% future grant reduction and in conjunction with known investment and cost pressures. The assumptions and reasoning behind these plans are reasonable. We have reviewed other assumptions which underpin the MTFP and they also appear realistic.</p> <p>Budgeted savings within this were £10m, consisting of £2.8m from Support and Corporate Services, £6.5m from Specialist Crime/Operations/Local Policing and £0.7m from contact and deployment. The savings plans are intended to allow additional resources to be directed to priority areas and not simply increase/maintain reserves and as such are regarded as representing good value for money for the tax payer.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Strategic plan and financial strategy (continued)</p>		<p>We have assessed whether the savings targets in the 2016/17 Business Plan and the MTFP are realistic with regard to previous savings targets achievement and performance in the year to date. You have a good achievement record for reaching budgeted savings targets and the 2016/17 planned savings are not substantially higher than those achieved in 2015/16 (£10m as against £8.3m). At Month 4 the Force was forecasting an underachievement of £0.9m against the planned savings. However, we do not regard this as a material variance within a 4 year plan for saving £23.7m over the 4 years to 2019/20 and we believe the assumptions behind the medium term savings planned are sound.</p> <p>Savings are identified within business areas by a collaborative approach between finance partners and operative colleagues. They are then monitored in subsequent finance updates through the Strategic Change Savings process which RAG rates savings against the financial year target to identify and highlight those with an elevated level of uncertainty. We have reviewed this cyclical process and conclude that this monitoring process is robust and is effective in supporting the delivery of budgets.</p> <p>The MTFP includes new investments for 2016/17 of £7.3m which include Retention Initiatives totalling £1.6m to retain and attract new detectives (particularly in connection with the Policing in your Neighbourhood model discussed below. This is particularly encouraging given the consistently high level of officer turnover which the Force has recently experienced.</p> <p>We have reviewed the Capital Budget in the MTFP. It is acknowledged that some areas are still under review/development and future plans beyond 2016/17 are based on estimates. It should be noted that the main funding source for capital expenditure (grants and capital receipts) is forecast to be fully depleted by 2018/19, at which time borrowing or revenue funding will be required to maintain investment in core assets. As these approaches could impact front line service delivery the forecast decline in the capital to be financed after 2018/19 appears reasonable.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>HMIC PEEL assessments In its most recent PEEL assessment the Force was rated as "Requires improvement" in both the Effectiveness and Efficiency strands.</p>	<ul style="list-style-type: none"> • Review of HMIC reports • Discussion with officers and review of action plans in place 	<p>This was HMIC’s second Police Effectiveness, Efficiency and Legitimacy (PEEL) Assessment of Surrey Police. We have reviewed HMIC’s key findings and conclusions notably:</p> <ul style="list-style-type: none"> - Effectiveness: the quality of some crime investigations particularly serious and organised crime requires improvement. HMIC highlighted that Surrey Police’s approach to protecting and supporting some vulnerable victims was inadequate; - Efficiency: Surrey Police did not have a thorough understanding of the demand for their services and therefore is not able to properly match resources to these demands. HMIC therefore concluded that the Force’s efficiency at keeping people safe and reducing crime requires improvement. <p>We have discussed the results of the HMIC report with officers and reviewed internal reports. You have considered HMIC's conclusions and given a high priority to their findings. You have acted immediately to put in place robust plans to address the findings around effectiveness and efficiency.</p> <p>In your response to the Effectiveness and Efficiency recommendations the planned approach has been a combination of implementing a new training program for officers and the identification and implementation of a new operating model, Policing in Your Neighbourhood (PiYN). As the training program is integral to the implementation of PiYN we have reviewed these together below in our detailed work around PiYN.</p> <p>You have worked with consultants to study quantitative data analysis and qualitative information derived from workshops and focus groups; stakeholder engagement and public opinion through the OPCC. The data was benchmarked against 11 other forces and the results were used to analyse the demand for services. This fed into the development of new IT products and reports which are part of the PiYN model (see discussion below).</p> <p>Within the Effectiveness findings, the report also provided areas for improvement around the Force's ability to tackle serious and organised crime. The Head of Serious and Organised Crime has put in place an action plan to address these areas which we believe, if implemented properly, should suitably address the HMIC findings.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Collaboration and strategic alliance You have a history of collaborating with Sussex Police and are looking to expand this to a four force model including Thames Valley and Hampshire. Government have also announced proposals on the devolution of power to Local Authorities and legislations which will enable integration between police and fire services.</p>	<ul style="list-style-type: none"> • Discuss progress to date with officers relating to collaborations with local forces. • Understand current collaborative discussions with Surrey Fire and Rescue. • Understand the extent to which you have been involved in the local Devolution discussions and how this could affect your future plans. 	<p>The Force has continued to actively pursue existing and new opportunities for collaboration with the aim of achieving the operational and financial benefits this can confer. These include:</p> <ul style="list-style-type: none"> - Extending the existing collaboration with Sussex Police - Surrey Fire & Rescue – operational and estate opportunities - ERP – Tri Force contract to implement the same product - Bluelight collaboration – South East Coast Ambulance, Surrey Fire & Rescue, West Sussex Fire & Rescue, East Sussex Fire & Rescue and Sussex Police. Joint Contact proposal, Integrated Transport Function. <p>We have reviewed the ongoing plans and budgeted savings from existing and planned collaborations. You have a history of successful collaboration, and of recognising savings as budgeted for these initiatives. We have concluded that the plans, associated financial assumptions and projections are reasonable.</p> <p>You are part of an alliance of public bodies in the “Three Southern Counties” (3SC) devolution proposals. The aim is that joint decisions which affect the whole area should be taken locally rather than nationally. A detailed case for 3SC devolution to the Government and Communities Minister Baroness Williams met with representatives from the 3SC in January and reacted positively to the proposals. A significant focus of the proposals is on improving the quality of housing and transport infrastructure and how this will feed into the local economy and transforming public services. This is still a proposal in development and there is no set timetable for devolution of power. We will continue to monitor developments here during the year to feed into future Value for Money reviews.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>
<p>Use of information technology The correct use of information technology can have a significant bearing on an efficient and connected organisation. Recognising this, you are carrying out a strategic review of your ICT capability.</p>	<ul style="list-style-type: none"> • Review of the external consultant's report • Review of internal audit reports 	<p>The external consultant's report had not been completed at the date of our Value for Money audit and therefore we could not use this as evidence to mitigate this risk. Our review of Management Meeting and Audit Committee minutes and of the work of Internal Audit does not suggest that there are any significant current weaknesses in the Force's current use of information technology or future strategy.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Police and Crime Plan You are currently in a period of transition with a number of senior officers, including the Chief Constable, acting in temporary roles.</p> <p>In addition Surrey elected a new PCC in May.</p>	<ul style="list-style-type: none"> Review of the transitional arrangements, including how the Force will deliver its new strategic goals and preparations for the new Police and Crime Plan. 	<p>David Munro was elected as the Police and Crime Commissioner in May 2016. Nick Ephgrave was appointed as Chief Constable in July 2016. At the time of writing you have a number of senior officers who are acting in temporary roles including the Deputy Chief Constable, Assistant Chief Constable and numerous Chief Superintendent roles.</p> <p>We have reviewed the Police and Crime Plan, the Medium Term Financial Plan and detailed budgets. We have discussed and reviewed the medium term plans and progress around implementing the new operating structure and to address findings from HMIC.</p> <p>Our work has concluded that you managed the transitional team arrangements well and as such they have not impeded you in putting in place and progressing robust development plans to improve and focus the services offered to Surrey residents (see our analysis of the PiYN model below and your response to the findings of the HMIC report above).</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>
<p>Policing in your Neighbourhood The Policing in Your Neighbourhood (PiYN) was introduced in April 2016 by the force to address the changing demand for police services.</p>	<ul style="list-style-type: none"> Review of plans in place to develop and introduce the PiYN model Review of governance and decision making around entering into these plans Review of the viability and reasonableness of financial projections of costs and savings associated with the introduction of the model Understand how the model will address the problems underlying the "requires improvement" conclusion reached by HMIC on the efficiency of Surrey Police 	<p>During our audit we reviewed reports describing your planned response to the areas for improvement in effectiveness and efficiency identified by HMIC in their PEEL report through PiYN and new officer training programs. We met with senior officers responsible for planning, implementing and monitoring the progress of the new operating model to discuss the results since its implementation in April 2016.</p> <p>PiYN is a 4 year project which aims to recognise savings through the restructuring of the Force operating model of £8.4m. Currently the initial 15/16 year savings recognised are £1.5m and have been on plan. The focus of the model is to convert Surrey Police from a functional streamed structure to multi-functional, upskilled geographical teams better able to understand and serve those areas.</p> <p>We discussed and reviewed the governance and decision making processes around entering into the plans. In overview: high level proposals were presented to and scrutinised by the Governance Board, Change Board and the Chief Officer Group to select the most viable plan. This progressed to the full drafting of a Business Case and presentation of this to the PCC. The PCC approved the Business Case on the 12th November 2015. We agree that PiYN has been subject to the governance and senior authorisation and notifications in accordance with your policies and procedures.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Policing in your Neighbourhood (continued)</p>		<p>We have reviewed the finances in regards to costs and savings. In conjunction with the fact that 2015/16 savings from the initial restructuring have been made as per the budget we have reviewed the underlying assumptions and concluded that your financial projections are reasonable. They are also subject to a regular reviewing and reassessment process to ensure that any risks to delivery are picked up and addressed early on. The high level summary reported in your corporate accounts is backed up by a detailed spreadsheet for both Surrey and Sussex, maintained by the Force Improvement Team. A monthly finance meeting is held with your Sussex equivalents to discuss individual savings, any changes and how they feed into project operations.</p> <p>Our discussions with senior officers and review of implementation plans show that PiYN addresses the problems underlying the "requires improvement" conclusion reached by HMIC primarily by:</p> <ul style="list-style-type: none"> - initial data analytics and benchmarking reports completed in conjunction with an external consultant have fed into new use of technology and reports such as the Daily Demand report and the PiYN dashboard function. These allow area teams to analyse the demand for services on a live basis and manage the length of investigation / resolution more effectively; - integration of the Niche system to provide a full, searchable database to officers; - Increased use of mobile working technology to promote efficient crime / response recording; - restructuring of the Force into geographically based response teams; - developing an approach to prioritising demand and also to recognising demand which does not require police involvement and should be referred to other agencies. This required the training and development of staff who were responsible to responding to the initial calls, and promoting publicity to help residents distinguish between urgent and non-urgent issues to understand when to call 999 and 101 lines; - ensuring continuity of contact with the geographically responsible investigating team from their initial report to the taking of statements to judicial proceedings - Upskilling and retraining of officers to allow them to become more multi-skilled, therefore facilitating the continuity of contact and shortening the length of resolution through less officer handover <p>PiYN has only been in operation as a model since April 2016 and as such there has not been a full appraisal of the success of the model. There have however been post-implementation reviews through organisational focus groups to monitor progress.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Budget £	Actual £
Police and Crime Commissioner audit	38,708	38,708
Chief Constable audit	15,000	15,000
Total audit fees (excluding VAT)	53,708	53,708

Fees for other services

Service	Fees £
Non-audit related services: - Whistle blowing review	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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

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 to those charged with governance

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

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 audit, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the PCC's and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the PCC's and Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and 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 Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

Appendices

Appendix A: Joint action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	<p><u>Property, Plant and equipment: Revaluations</u></p> <p>A full reconciliation process should be undertaken between the expert valuer's work and the amounts shown in the accounts. Any differences should be identified and fully investigated. This work should be counter-reviewed by a separate Finance Team officer and signed as reviewed.</p>	Medium	A reconciliation will take place and all future valuations will be reconciled to the fixed asset register and reviewed/approved independently.	Bev Foad 31 December 2016
2.	<p><u>Property, Plant and equipment: Revaluations</u></p> <p>The Finance Team should complete a regular reconciliation between the Fixed Asset Register and the estates system, with variances being investigated and cleared in a timely manner.</p>	Medium	A process to reconcile the FAR and estates system will put in place along with quarterly meetings with the Estate strategy Manager to investigated any variances.	Bev Foad 31 December 2016

Appendix A: Joint action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	<p><u>Property, Plant and equipment: Revaluations</u></p> <p>The extent of ownership of your assets should be agreed and it should be clearly documented that the Head of Finance and Services has reviewed and approved this judgement.</p>	Low	<p>We will continue to discuss these assets with Surrey County Council to get clarity over ownership. The extent of ownership will be documented and review by the PCC's CFO to align with assets being under the PCC's control.</p>	<p>Judy Gavan 31 March 2016</p>

Appendix B: Draft Audit opinion – Police and Crime Commissioner

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

DRAFT 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 (the "Police and Crime Commissioner") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Police and Crime Commissioner Movement in Reserves Statements, the Group and Police and Crime Commissioner Comprehensive Income and Expenditure Accounts, the Group and Police and Crime Commissioner Balance Sheets, the Group and Police and Crime Commissioner Cash Flow Statements 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 2015/16.

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 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 2015/16, which 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 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 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 Narrative Report, the Annual Governance Statement and the Annual Report 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:

- present a true and fair view of the financial position of the Police and Crime Commissioner and Group as at 31 March 2016 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Annual Governance Statement and the Annual Report is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Police and Crime Commissioner under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Police and Crime Commissioner's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Police and Crime Commissioner and 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 20(1)(c) of the Act to be satisfied that the Police and Crime Commissioner has made 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 the Police and Crime Commissioner's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Police and Crime Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Police and Crime Commissioner has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Police and Crime Commissioner in accordance with the requirements of the Act and the Code.

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

Grant Thornton House
Melton Street
Euston Square
London

NW1 2EP

***2016

Appendix C: Draft Audit opinion – Chief Constable

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

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

We have audited the financial statements of the Chief Constable for Surrey (the "Chief Constable") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Account, 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 2015/16.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 2015/16, which 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 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 Narrative Report and the Annual Governance Statement and the Annual Report 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:

- present a true and fair view of the financial position of the Chief Constable as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Annual Governance Statement and the Annual Report is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Chief Constable under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Chief Constable's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Chief Constable and 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 20(1)(c) of the Act to be satisfied that the Chief Constable has made 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 the Chief Constable's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Chief Constable put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Chief Constable has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Chief Constable in accordance with the requirements of the Act and the Code.

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

Grant Thornton House
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**2016



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