



The joint Annual Audit Letter for for the Police and Crime Commissioner and the Chief Constable of Surrey

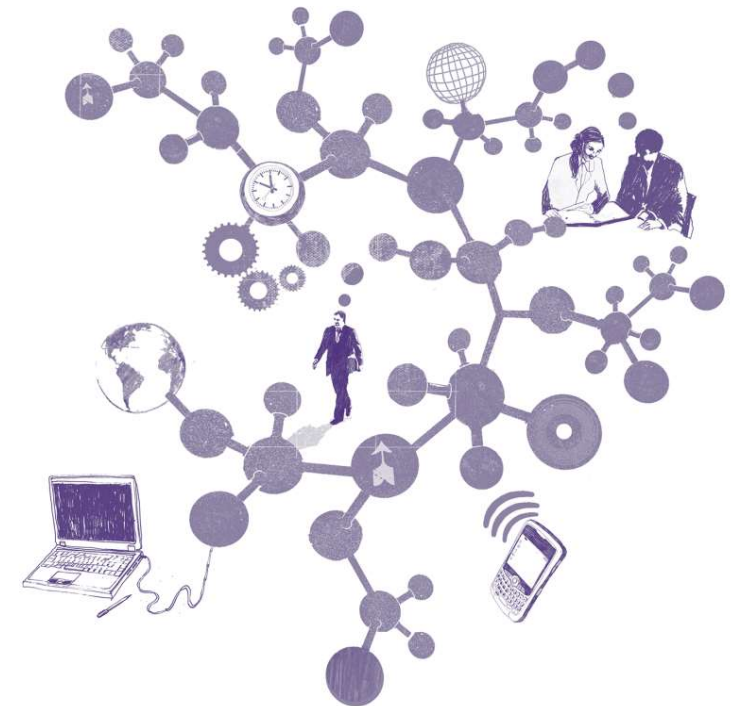
Year ended 31 March 2016

25 October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Police and Crime Commissioner for Surrey (the PCC) and the Chief Constable of Surrey (the CC) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC, the CC and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Joint Audit Committee as those charged with governance in our Audit Findings Report on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the financial statements (section two)
- assess the arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusion) (section three).

In our audit of the PCC and the CC's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the PCC and the CC put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the PCC and the CC in accordance with the requirements of the Code on 29 September 2016.

Working with the PCC and CC

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 provided to support the financial statements;
- management's judgements in key areas were reasonable;
- we did find a number of potential improvements in the process for revaluing property, plant and equipment which appeared to relate mainly to the efficient communication of accurate information on the assets between the Finance and Estates Teams;
- we identified a number of minor misstatements affecting the PCC's reported financial position (primarily relating to the accounting for property, plant and equipment). Whilst these were immaterial to the accounts, management agreed to adjust the accounts for these misstatements.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC and CC staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the PCC and CC's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the PCC and CC's accounts to be £4,736k (being 2% of gross revenue expenditure of the group for 2014/15). We used this benchmark, as in our view, users of the accounts are most interested in how it has spent the income it has raised during the year.

We set a lower threshold of £237k, above which we reported errors to the Joint Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the PCC and CC and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the PCC and CC business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<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>We did not identify any issues to report</p>
<p>Employee Remuneration</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<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>We did not identify any issues to report</p>

Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
<p>Police Pensions Benefits Payable</p> <p>Benefits improperly computed / Claims liability understated</p>	<p>PCC and Chief Constable audits:</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>We did not identify any issues to report</p>
<p>Valuation of pension fund net liability</p> <p>The Chief Constable's 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>PCC and Chief Constable audits:</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>We did not identify any issues to report</p>

Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
<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 and Chief Constable audits:</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>Our review of the instructions and data provided to the valuer identified some discrepancies between the Estates Team records, the Finance Team fixed asset register and the properties which were revalued. We made three recommendations in our Audit Findings Report about how the valuation processes could be improved.</p> <p>We identified some accounting misstatements in the accounting entries for revaluations; these were below materiality but management decided to adjust the accounts to correct these misstatements.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the PCC and CC accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The PCC and CC made the accounts available for audit in line with the agreed timetable and the finance team responded promptly and efficiently to our queries during the course of the audit. Improvements could be made to the working papers supporting the accounts and we plan to support the finance team in improving arrangements around an earlier close of accounts after the year-end to support an earlier sign off in 2016/17.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the PCC and CC to the Joint Audit Committee on 27 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Annual Governance Statement and Narrative Report. The PCC and CC published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided and with our knowledge of the PCC and CC.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the PCC and CC put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Strategic plan and financial strategy The PCC and CC 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.</p> <p>Future 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>We concluded that the risk was sufficiently mitigated and the PCC and CC have proper arrangements.</p>
<p>HMIC PEEL assessments In the 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>We concluded that the risk was sufficiently mitigated and the PCC and CC have proper arrangements.</p>
<p>Collaboration and strategic alliance The Force has 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>We concluded that the risk was sufficiently mitigated and the PCC and CC have proper arrangements.</p>

Value for Money (continued)

Risk identified	Work carried out	Findings and conclusions
<p>Use of information technology The correct use of information technology can have a significant bearing on an efficient and connected organisation. Recognising this, the Force is carrying out a strategic review of its ICT capability.</p>	<ul style="list-style-type: none"> • Review of the external consultant's report • Review of internal audit reports 	<p>We concluded that the risk was sufficiently mitigated and the PCC and CC have proper arrangements.</p>
<p>Police and Crime Plan The PCC and CC 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>We concluded that the risk was sufficiently mitigated and the PCC and CC have 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>We concluded that the risk was sufficiently mitigated and the PCC and CC have proper arrangements.</p>

Working with the PCC and CC

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

- An efficient audit – we delivered the accounts audit in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems.
- Improved financial processes – during the 2016/17 year we will share with you our insights on advanced closure of local authority accounts, and we will continue to provide you with our insights as you bring forward your production of your year-end accounts. We have already planned with your finance team a workshop around advanced closure and improved audit working papers.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular committee updates covering best practice and we have shared our thought leadership reports with you which are directly relevant to the Police sector.
- Support outside of the audit – our advisory team have completed a Whistle Blowing review

Appendix A: Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	June 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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