

PART ONE

ITEM 09

To: Joint Audit Committee
Date: 27th July 2017
By: Iain Murray, Grant Thornton
Title: External Audit Findings Report 2016/17

Purpose of Report/Issue:

To provide members with a summary of the work carried out by the External Auditors during the 2016/17 audit of accounts.

Recommendations

The Committee is asked to consider, comment and note the contents of the Annual Findings Report.

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

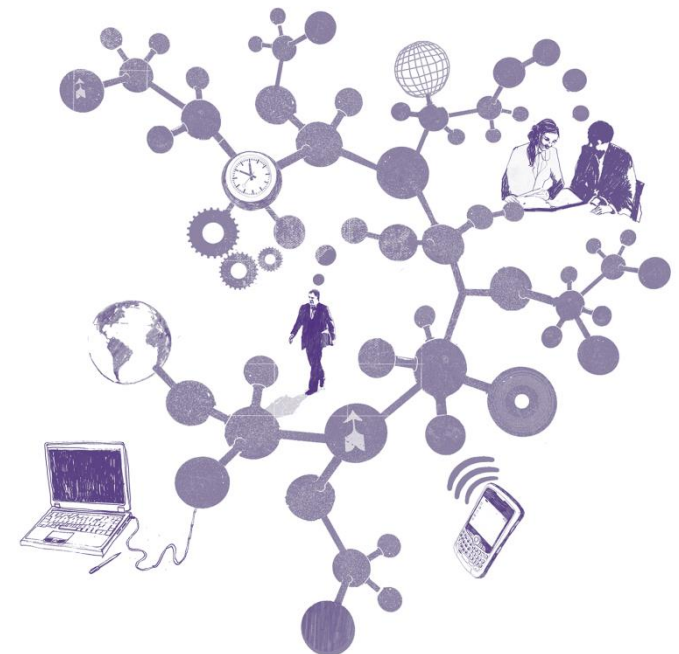
Year ended 31 March 2017

July 2017

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27 July 2017

Dear David and Nick

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Audit Findings Police and Crime Commissioner for Surrey and Chief Constable for Surrey for the year ending 31 March 2017

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

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- 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 Police and Crime Commissioner for Surrey (PCC) and Chief Constable for Surrey and the preparation of the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2017. 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 other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the PCC and the Chief Constable acquired in the course of performing our audit; or otherwise misleading.

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.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audits that in our opinion should be considered by the PCC or the Chief Constable or both, or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the PCC or the Chief Constable or both and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

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 audit we have made two minor alterations to our audit approach (originally communicated to you in our Joint Audit Plan dated March 2017):

We did not receive the Service Auditor Report (ISAE3240) from Equiniti and so were unable to rely on this to provide assurance over those aspects of the police pension fund control environment. As a result we have conducted additional procedures in relation to the Police Pensions Benefits Payable risk.

Our work in relation to the valuation of property plant and equipment has been adjusted to reflect the fact there was no formal revaluation of assets during the year, further details are included on page 15 of this report.

Our work is substantially complete and we have the following closing procedures to complete prior to issuing our opinion:

- Obtaining and reviewing the management letter of representation
- Final audit file quality review
- Updating our post balance sheet events review
- Receipt and review of your Whole of Government Accounts
- Receipt and review of the final version of the financial statements

Key audit and financial reporting issues

Financial statements opinion

The draft financial statements for the year ended 31 March 2017 recorded 'Other Comprehensive Income and Expenditure' of £390.4m and our work to date has not resulted in a change to the reported position.

We have recommended a number of adjustments to improve the presentation of the financial statements.

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

- The dry run of early close has worked well and you published your draft financial statements on 1 June ahead of the start of our audit on 5 June, working papers we also available for us at the start of the audit. This means that you are well placed to meet the earlier deadlines which come in to effect in 2017/18.
- The working papers produced were of a good standard overall and represent an improvement on previous years. We will continue to work with the finance team to refine those areas where there is still scope for improvement in the closedown and audit process.

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

We anticipate providing an 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 considering if the Annual Governance Statements 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.

Our review of the PCC's and Chief Constable's Narrative Reports and AGSs is still outstanding at the time of drafting this report. We will provide an update to the PCC and Chief Constable at our meetings in the week commencing 17 July.

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 system 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 draw your attention in particular to three control issues identified in relation to the valuation of certain categories of property, plant and equipment.

Further details are provided within 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.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

Further details of our work on other statutory powers and duties is set out in section four 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 with the Chief Finance Officer to the PCC and the Chief Finance Officer to the Chief Constable, as well as with the PCC and Chief Constable as the two individuals charged with overall governance for the office of the PCC and the police force respectively.

We have made three recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with management 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
July 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

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05. Communication of audit matters

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 gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was £4,832k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audits and on receipt of the draft 16/17 financial statement, have revised our overall materiality to £4,684k (being 2% of gross revenue expenditure of the Chief Constable for Surrey).

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 £234k.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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>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 the PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. 	Our audit work has not identified any issues in respect of revenue recognition.
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>	Both	<ul style="list-style-type: none"> • Review of entity controls • Testing of journal entries • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions 	<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.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Both	We have completed the following work in relation to this risk: <ul style="list-style-type: none"> • A walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Trend analysis of the employee remuneration expenditure month by month • 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 • Review and of other remuneration disclosures and confirmation of these (employee numbers, redundancy packages, senior officers remuneration) to supporting schedules and evidence. 	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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	We have completed the following work in relation to this risk: <ul style="list-style-type: none"> • A walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Substantive testing of a sample of expenditure recorded on the accounting system to supporting documentation and payments; • Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces 	Our audit work has not identified any significant issues in relation to the risk identified.

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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
<p>Police Pensions Benefits Payable</p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>Chief Constable</p>	<p>We have completed the following work in relation to this risk:</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 whether those controls are designed effectively reconciled the amounts of benefits notified to Surrey Police Force by Equiniti to the amounts recognised in the accounts review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD <p>As there was no ISAE3240 controls audit report received from the service provider we completed the following procedure which was not set out in our plan:</p> <ul style="list-style-type: none"> performed analytical review on the benefits paid to gain assurance that they are not materially misstated Identified compensating controls and confirmed they design effectiveness and implementation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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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
Valuation of pension fund net liability	The Chief Constable's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	Chief Constable	We have completed the following work in relation to this risk: <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 	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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
<p>Valuation of property, plant and equipment</p>	<p>The PCC revalues its assets on a rolling basis over a five year period. The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>PCC</p>	<p>We have completed the following work in relation to this risk:</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. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>As there was no formal revaluation scheduled for 2016/17 we have not needed to complete the following procedures set out in our plan:</p> <ul style="list-style-type: none"> • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the PCC's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. 	<p>Our audit work has identified three control issues which relate to the valuation of property plant and equipment. These are set out on page 23.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	Both	<p>We have completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the PCC's and Chief Constable's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. <p>Work in progress:</p> <ul style="list-style-type: none"> tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements 	Our audit work has not identified any significant issues in relation to the risk identified.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed management's assessment of the going concern assumption for each of the PCC and the Chief Constable and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 accounts.


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.

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 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 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

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
<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
<p>Estimates and judgements – pension fund liability</p>	<p>Both</p>	<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>	
<p>Going concern</p>	<p>Both</p>	<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 2016/17 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 2016/17 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

● 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
Judgements	PCC	<p>Assets included in the Balance Sheet held at current value are revalued where there have been material changes in the value, or, as a minimum, every 5 years.</p> <p>The decision not to revalue these assets to their indexed valuation estimated at 31 March 2017 is considered a critical judgement</p>	<p>You hold both operational and residential land and buildings at current value. Management has decided not to revalue either of these classes of assets during 2016/17. Residential properties were last revalued as at 31 December 2015 and operational properties were last revalued at 31 March 2014. It has been less than 5 years since both classes were revalued.</p> <p>Management's decision not to revalue properties in the year is based on the percentage increases in property values provided by Burton Knowles. We have carried out our own assessment of potential movements in valuation of these assets by reference to professional market indices and concluded that this critical judgement is reasonable.</p>	●
Estimates	Both	<p>PCC</p> <p>The items in the Group's Balance Sheet at 31 March 2017 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 2017 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"> From the work we carried out, we have not identified 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 confirmation 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 statement 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 material control weaknesses which have impacted on our risk assessment. The Annual Report for the year ended 31 March 2017 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 will review the final version of the Annual Governance Statement (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
11.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> Note that work is not required as the PCC Group does not exceed the threshold.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> Surplus assets and assets held for sale should both be held at fair value and an assessment made each year about the need to revalue these assets. This assessment does not currently take place and there is potential for the assets to be materially misstated. 	<ul style="list-style-type: none"> Make an assessment of the need to revalue surplus assets and assets held for sale each year.
2.	●	<ul style="list-style-type: none"> Assets Under Construction are not revalued when brought into use. There is potential for assets to be materially misstated as a result. 	<ul style="list-style-type: none"> Revalue Assets Under Construction when they are brought into use.
3.	●	<ul style="list-style-type: none"> There are a number of assets with zero net book value currently held on the asset register. The total gross book value of these assets is £14m. While some of these assets may remain in use there are others which are obsolete and may have been disposed of. 	<ul style="list-style-type: none"> Put in place a process to assess whether or not zero net book value items are still in use and write off those assets which are no longer in use.

Assessment

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

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	—	<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>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> <p>Revaluations have not occurred this year and so we are unable to confirm whether this action has been completed.</p>
2.	X	<p>Property Plant and Equipment: Revaluations</p> <p>It was observed that there were 5 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.</p>	<p>It was recommended that 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> <p>The last reconciliation was completed at 31 March 2016. However our work this year has identified two items that were on the estates system but not on the fixed asset register. We note that the combined impact of these two assets is below our triviality threshold.</p> <p>We would still recommend that a reconciliation takes place every year.</p>
3.	X	<p>It was observed that there were 7 police house 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>The CIPFA code guidance states that a revaluation should be applied to all assets within a classification.</p>	<p>It was recommended that the extent of ownership of your assets should be agreed and any use of judgement clearly documented.</p> <p>Management have agreed ownership of 2 of the identified assets and are investigating ownership of the other 5 assets at the time of writing this report.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Adjusted misstatements – Police and Crime Commissioner and Group and Chief Constable financial statements

There have been no non-trivial adjustments to the PCC and group or Chief Constable's draft accounts during the audit process. Disclosure and classification changes are set out over the page.

Unadjusted misstatements – Police and Crime Commissioner and Group and Chief Constable financial statements

There were no adjustments identified during the audit which have not been made within the final sets of financial statements

Misclassifications and disclosure changes – Police and Crime Commissioner and Group and 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 Misclassification	£400	Pension Fund Account adjustment	Commutations and lump sum retirement benefits (from £6.8m to £6.4m); Lump sum death benefits (from £0.0m to £0.4m)
2 Misclassification	£500	Cash flow	In operating activities the cash paid to and on behalf of employees should be £191m (originally stated £191.5m) and other operating activities should be £47.7m (originally stated £47.2m).

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 2016. AGN 03 identifies one single 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.

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 March 2017 and identified the following significant risks, which we communicated to you in our Joint Audit Plan dated March 2017.

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

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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 2019/2020 and that the planning assumptions within this are reasonable;
- The Force has detailed and robust plans and procedures in place to increase retention of officers and move overall officer numbers closer to planned levels.

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 later in this section.

Overall conclusion – Police and Crime Commissioner

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

- the PCC had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

Overall conclusion – Chief Constable

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

- the Chief Constable had proper arrangements in all significant respects to ensure they delivered value for money in their 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>Medium term financial planning Your medium term financial plans identify the need to deliver savings to manage the impact of funding reductions and demand pressures over the current spending round. The potential reform of police funding formula also creates uncertainty in the short to medium term.</p> <p>Your plans also include a number of important investment to support changes and improvements in key areas of service delivery.</p>	<p>We have reviewed the Medium Term Financial Plan (MTFP) and capital strategy and assessed the reasonableness of the assumptions contained therein.</p> <p>We have reviewed your arrangements for identifying and monitoring savings to ensure that they support the Police and Crime Plan.</p> <p>We have updated our understanding of planned changes in your operating model and how these are captured and supported in your MTFP</p>	<p>You have a good record at setting a realistic financial plan and achieving savings. We have reviewed the assumptions you have made in updating your Medium Term Financial Plan and found these to be reasonable. Your outturn position was a small surplus of £0.2m.</p> <p>Savings plans are generated by Chief Officers and monitored by the Change Board. The savings requirement from the year just finished (2016/17) was £10m, of which the force achieved £7.7m. Of the £2.3m savings which were not achieved during the year, £1.9m was identified early as unachievable in year and incorporated instead into the 2017/18 target. You are currently on target to achieve your savings plan of £5.5m in 2017/18.</p> <p>As part of your drive to ensure a sustainable service going forward you have plans to invest in ICT to enable more agile working, which compliments your estates strategy and forecast demand on services.</p> <p>You identified a weakness in internal forecasting during the year which you addressed. You are now implementing an independent review to ascertain the effectiveness of the remedial action.</p> <p>On the basis of the work completed we have concluded that the risk was sufficiently mitigated and that you have proper arrangements in place for financial planning over the medium term.</p>
<p>Recruitment and retention of police officers You are currently forecasting an underspend for the 2016/17 year mainly as a result of not maintaining police officer numbers at planned levels of establishment. Whilst you have continued to recruit new officers you have experienced larger than anticipated numbers of officers leaving the Force.</p>	<p>We have reviewed the plans you have in place and procedures you have in place to increase retention of officers and move overall officer numbers closer to planned levels.</p>	<p>You have taken a series of actions to enhance retention of both police officers and staff via your People Deal. These actions primarily focus on ensuring that you are offering an attractive work environment, including flexible working, opportunities to experience different roles via Policing in Your Neighbourhood and developing an inclusive culture. You are also using all avenues available to you within the 1% public sector pay cap to properly reward people. These initiatives have allowed you to increase police officer numbers to reach budgeted levels.</p> <p>On the basis of the work completed we have concluded that the risk was sufficiently mitigated and that you have proper arrangements in place for sustainable resource deployment.</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 confirm there were no fees for the provision of non audit services.

Fees

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

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
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

A. Joint action Plan

B. Audit opinion - Police and Crime Commissioner

B. Audit opinion – Chief Constable

Appendix A: Joint action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Make an assessment of the need to revalue surplus assets and assets held for sale each year.		We will assess the need to revalue surplus assets and assets held for sale in consultation with our valuers. This will need to take into account materiality along with the cost of carrying out any valuation.	December 2017 – Corporate Finance Manager
2	Revalue Assets Under Construction when they are brought into use.		We will assess the need to revalue assets under construction when they are brought into use, recognising that this will not be necessary for all assets types. The materiality and cost of any such valuation will also need to be taken into account.	September 2017 – Corporate Finance Manager
3	Put in place a process to assess whether or not zero net book value items are still in use and write off those assets which are no longer in use.		We will continue to work with the business to assess whether or not zero net book value items are still in use. In addition to this we will look at sending quarterly assets reports to the relevant budget holders.	September 2017 – Corporate Finance Manager

Priority

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix B: 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 2017 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 2016/17.

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 2016/17, 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 2017 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 2016/17 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 2016, 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 2017.

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 2016, 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 2017.

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

***2017

Appendix C: 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 2017 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 2016/17.

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 2016/17, 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 2017 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 2016/17 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 2016, 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 2017.

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 2016, 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 2017.

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

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**2017



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