



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

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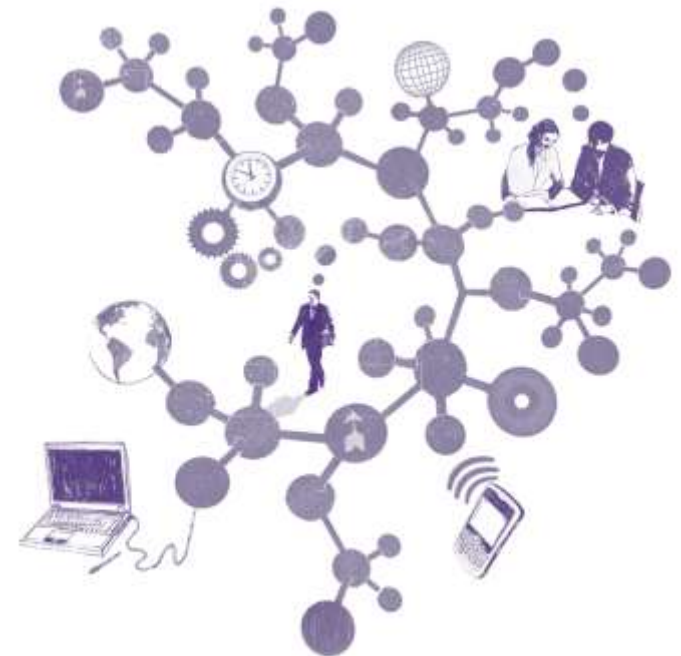
**Year ended 31 March 2017**

October 2017

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

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

**Premaa Khagram**  
Executive  
T 0207 728 3077  
E [premaa.b.khagram@uk.gt.com](mailto:premaa.b.khagram@uk.gt.com)



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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at the Police and Crime Commissioner for Surrey (the PCC) and the Chief Constable for Surrey (Chief Constable) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the PCC and Chief Constable and their external stakeholders, and highlights issues 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 PCC's and Chief Constable's Joint Audit Committee Committee (as those charged with governance) in our Audit Findings Report on 27 July 2017.

## **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 PCC's and Chief Constable's financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC's and Chief Constable'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 PCC's and Chief Constable's financial statements on 4 August 2017.

### **Value for money conclusion**

We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 4 August 2017.

### **Certificate**

We certified that we had completed the audit of the accounts of the PCC and the Chief Constable in accordance with the requirements of the Code on 4 August 2017.

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## **Working with the PCC and Chief Constable**

We are really pleased to have worked with you over the past year. Some examples of where we have worked with you include:

An efficient audit – we delivered the accounts audit to the timescales agreed in advance. The earlier audit deadline was delivered a year ahead of when this is mandated in 2018.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided independent external audit commentary and insight in your key issues through senior attendance at every Joint Audit Committee. We have also shared with you our insights on various accounting issues including earlier closure timetables.

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

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the PCC and Group and Chief Constable'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 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 £4,832,000 (being 2% of gross revenue expenditure of the PCC). We used gross revenue expenditure as the benchmark, as in our view, users of the PCC's and Chief Constable's accounts are most interested in how they have they have spent the income they have received during the year.

We set a lower threshold of £234,000, above which we reported errors and uncertainties to the PCC and Chief Constable 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 they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

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

We also read the narrative reports and annual governance statements to check they are consistent with our understanding of the PCC and Chief Constable and with the accounts included in the Statement of Accounts on which we gave 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's and Chief Constable's businesses 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 – Police and Crime Commissioner and Chief Constable

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	Relevant to PCC / Chief Constable / Both?	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to 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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government;</li> <li>• 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</li> <li>• the culture and ethical frameworks of local authorities, including the PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	Both	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Review of entity controls</li> <li>• Testing of journal entries</li> <li>• Review of accounting estimates, judgements and decisions made by management</li> <li>• Review of unusual significant transactions</li> </ul> <p><b>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</b></p>

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	How we responded to the risk
<p><b>Employee remuneration</b> Accruals understated and remuneration expenses not correct</p>	Both	<p>We carried out the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• A walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Trend analysis of the employee remuneration expenditure month by month</li> <li>• Substantive testing of sample of payments through payroll to supporting records to assess whether they are in line with contractual amounts</li> <li>• Testing of reconciliation of payroll records to general ledger</li> <li>• Review and of other remuneration disclosures and confirmation of these (employee numbers, redundancy packages, senior officers remuneration) to supporting schedules and evidence.</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Police pensions benefits payable</b> Benefits improperly computed / claims liability understated</p>	Chief Constable	<p>We have completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• reconciled the amounts of benefits notified to Surrey Police Force by Equiniti to the amounts recognised in the accounts</li> <li>• review of PwC's work as consulting actuaries assessing the competence and objectivity of, and assumptions and approach adopted by Hymans Robertson and GAD</li> </ul> <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"> <li>• performed analytical review on the benefits paid to gain assurance that they are not materially misstated</li> <li>• Identified compensating controls and confirmed they design effectiveness and implementation.</li> </ul> <p><b>We did not identify any issues to report.</b></p>

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	How we responded to the risk
<p><b>Valuation of pension fund net liability</b></p> <p>The Chief Constable's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	Chief Constable	<p>We completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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.</li> <li>• review of the reasonableness of the actuarial assumptions</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Changes to the presentation of local authority financial statements</b></p> <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 completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• 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</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> </ul> <p><b>We did not identify any issues to report.</b></p>



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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 4 August 2017, well in advance of the 30 September 2017 national deadline.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable. 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 and improve the closedown and audit process.

The accounts presented for audit were prepared to a very good standard, subject only to a small number of disclosure amendments. The finance team responded promptly and efficiently to our queries during the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the PCC and Chief Constable and the Joint Audit Committee on 27 July 2017.

Our audit did not identify any material errors or uncertainties in the Chief Constable or PCC and Group financial statements. Management amended the Chief Constable and PCC and Group accounts for disclosure changes identified and agreed with management during the audit. These were primarily to correct minor errors and improve the presentation of the accounts.

## **Annual Governance Statement and Narrative Report**

We are required to review the PCC's and Chief Constable's Annual Governance Statements and Narrative Reports. Both entities published these documents on their websites with the draft accounts in line with the national deadlines.

All documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the PCC and Chief Constable and with our knowledge of the PCC and Chief Constable.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC's and Chief Constable's accounts and to raise objections received in relation to the accounts.

We did not apply any additional powers. No electors raised questions about the PCC's or Chief Constable's accounts or raised objections in relation to the accounts.

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# 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 2016 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 the table overleaf.

## **Overall VfM conclusion**

We are satisfied that in all significant respects both the PCC and the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial planning</b> 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 reviewed the Medium Term Financial Plan (MTFP) and capital strategy and assessed the reasonableness of the assumptions contained therein.</p> <p>We reviewed your arrangements for identifying and monitoring savings to ensure that they support the Police and Crime Plan.</p> <p>We 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><b>On the basis of the work completed we concluded that the risk was sufficiently mitigated and that you have proper arrangements in place for financial planning over the medium term.</b></p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Recruitment and retention of police officers</b></p> <p>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 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><b>On the basis of the work completed we concluded that the risk was sufficiently mitigated and that you have proper arrangements in place for sustainable resource deployment.</b></p>

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit confirm there were no fees for the provision of non audit services.

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Police and Crime Commissioner audit	38,708	38,708	38,708
Chief Constable audit	15,000	15,000	15,000
<b>Total fees (excluding VAT)</b>	<b>53,708</b>	<b>53,708</b>	<b>53,708</b>

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

## Reports issued

Report	Date issued
Audit Plan	21 March 2017
Audit Findings Report	27 July 2017
Annual Audit Letter	30 October 2017



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