Police and Crime Commissioner and Chief Constable for Surrey Police

Audit planning report

31 January 2019

Building a better working world

Private and Confidential

31 January 2019

Surrey Police HQ,
Mount Browne
Guildford,
Surrey.

Dear David and Nick,

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Joint Independent Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC), and outlines our planned audit strategy in response to those risks. This report is intended solely for the information and use of the Joint Independent Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 23 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

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Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Joint Independent **Audit Committee and management of** Surrey Police in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Independent **Audit Committee, and management of Surrey Police** those matters we are required to state to them in this 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 Joint Independent **Audit Committee and management of Surrey Police** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Police and Crime Commissioner (PCC) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY Grant Thornton assessment	Details
Risk of fraud in revenue and expenditure recognition	Significant Risk / Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
IAS 19 Liability Valuation	Other Risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the PCC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Surrey County Council. The CC must also do similar in respect of the Police Pension Fund. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the County Council and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
PPE Valuations	Other Risk	No change in risk or focus	Property, Plant & Equipment (PPE) balances are some of the largest on the Balance Sheet. Small changes in key assumptions can have a significant and material impact in the financial statements. Our approach will focus on: ► Completing substantive testing of material balances within the Property, Plant and Equipment (PPE) note in the financial statements to ensure that all balances are materially correct. We have a Higher Risk on Valuations; ► Assessing the key assumptions and judgements applied by the external valuer.
Impact of New Accounting Standards – IFRS 9 (Financial Instruments) & IFRS 15 (Revenue Recognition)	Other Risk	New risk or focus	IFRS 9 brings revisions to the classification and impairment of financial assets. IFRS 15 sets out a revised income recognition and measurement framework to bring clarity over accounting for **complex** transactions. Both standards are effective from 1st April 2018.

Overview of our 2018/19 audit strategy

Materiality

Group Planning materiality

£6.314m

We have determined that materiality for the financial statements of the PCC Group, the subsidiaries (PCC and CC Single entity accounts) and the Police Pension Fund is: Group is £6.314m, PCC is £2.874m, CC is £6.241 m and Police Pension Fund (PPF) is £0.906m, respectively. This represents 2% of the prior years gross expenditure on provision of services for the PCC Group and CC Single entity accounts, 2% of the prior years gross assets for the PCC single entity accounts and 1% of the higher of benefits payable/contributions receivable for the Police Pension Fund.

Group Performance materiality

£4.735m

Performance materiality for the PCC Group, the subsidiaries and the PPF has been set at £4.735m, £2.155 m, £4.681 m and £0.680 m which represents 75% of materiality.

Group Audit differences

£0.316m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and police pension fund financial statements) greater than £0.316m for the Group. Other misstatements identified will be communicated to the extent that they merit the attention of the PCC and CC. The thresholds for the CC (Single Entity), the PCC (Single Entity) and the Police Pension Fund are £0.312m, £0.144m and £45k respectively.

Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the PCC and CC for Surrey Police give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PCC's and CC's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Audit team

Paul King (Associate Partner)

Paul King, Associate Partner

- Paul is an Associate Partner within the UK&I Assurance practice, with over 20 years experience of UK LG audits.
- He is a member of CIPFA (Chartered Institute of Public Accountancy) and will be the key contact for the Audit Committee and chief officers.

Justine Thorpe, Manager

- Justine is a Manager within the UK&I Assurance practice, with over 20 years experience of UK LG audits.
- She is a member of CIPFA (Chartered Institute of Public Accountancy) and will be the key contact for your Finance Team.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

This risk has been associated to the following testing areas:
Balance Sheet PPE Land & Buildings - PCC – Existence
Balance Sheet PPE Other - CC – Existence

What will we do?

We will:

- Review and test revenue and expenditure recognition policies;
- Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- Develop a testing strategy to test material revenue and expenditure streams;
- Review and test revenue cut-off at the period end date; and
- Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised

Our response to significant risks (continued)

Misstatements due to fraud or error - Management Override*

Financial statement impact

Management override risk covers the risk that managements may be able to override the controls in relation to the financial statements resulting in misstatements.

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will:

- Identify fraud risks during the planning stages.
- Enquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including tests of journal entries and other adjustments in the preparation of the financial statements.
- Review accounting estimates for evidence of management bias;
- Evaluate the business rationale for significant unusual transactions.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation & Actuarial Assumptions The Local Authority Accounting Code of Practice and IAS19 require the CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Surrey County Council. The CC must also do similar in respect of the Police Pension Fund. The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC. At 31 March 2018 this totalled £2.5 million and £4,294 million respectively. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the County Council and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Surrey County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Surrey Police; ▸ Assess the work of the LGPS Pension Fund actuary (Hymans Robertson) and the Police Pension actuary (Government Actuaries Department - GAD) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the PCC and CC's financial statements in relation to IAS19.
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: ▸ Consider the work performed by the PCC's valuer (Bruton Knowles) , including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. ▸ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

<table>
<tr><th>What is the risk/area of focus?</th><th>What will we do?</th></tr>
<tr><td>IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:
▸ How financial assets are classified and measured;
▸ How the impairment of financial assets are calculated; and
▸ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</td><td>We will:
▸ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
▸ Consider the classification and valuation of financial instrument assets;
▸ Review new expected credit loss model impairment calculations for assets; and
▸ Check additional disclosure requirements.</td></tr>
<tr><td>IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on Police accounting is likely to be limited as large revenue streams like council tax and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</td><td>We will:
▸ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
▸ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
▸ Check additional disclosure requirements.</td></tr>
</table>

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the PCC and CC have put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion: “*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people*”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

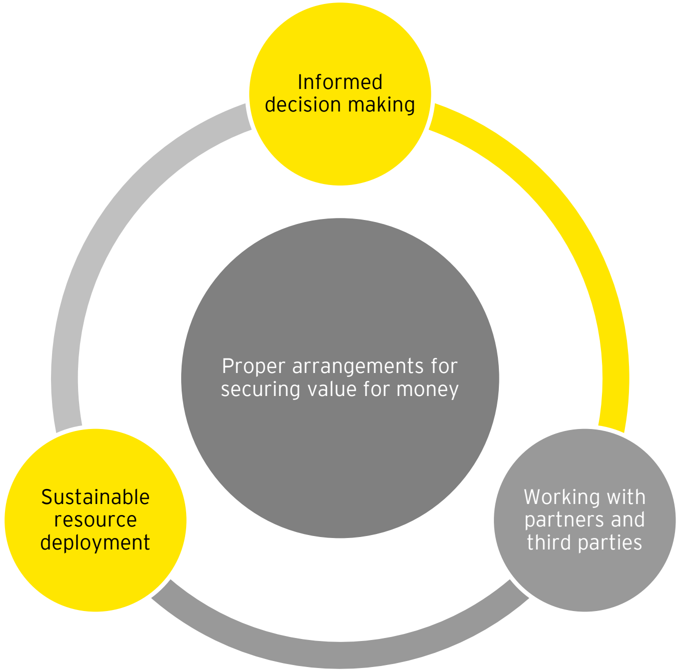
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as “*A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public*”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the PCC & CC to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage we have identified the following two significant risks to our Value for Money Conclusion work. These are the:

- delivery of a robust Medium Term Financial Plan;
- development and implementation of the new Enterprise Resource Planning (ERP) system.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Delivery of a robust Medium Term Financial Plan		
Surrey Police has a Medium Term Financial Plan (MTFP) in place which takes account all relevant factors. There is a good record of making savings and the Force has used the HMICFRS Value for Money Profiles and worked with Sussex Police, South East Region forces and other Blue Light Services to develop a plan which has currently identified savings of £5.6m (£5.3m to be delivered in 2018/19 and £0.3m to be delivered in 2019/20). In the March 2018 version of your MTFP just over half of these savings schemes were rated as red. However, current identified savings are insufficient to meet the budget gap over the next four years. A full savings plan has been identified for 2018/19 and officers are working to identify savings for 2019/20 and beyond. The analysis in your MTFP of the worst case scenario over the next four years shows a budget gap and therefore savings target of £16.1m. This scenario takes a pessimistic view of central government funding and local freedoms to increase precept from 2019/20 onwards. There are also ambitious plans in relation to estates and significant investment is required to address some legacy challenges in relation to ICT that need to be addressed in the short to medium term. It will be important that you are able to track the interdependencies between these areas and other areas of investment in terms of their impact on the operations of the force and your financial plans, particularly in relation to capital financing. It will also be essential that the benefits associated with these schemes are clearly identified at the outset and robustly monitored through to delivery. The Force is working on a new iteration of the MTFP in which needs to identify savings for future years to close the budget gap as well as factor in ICT costs which are currently not included beyond 2018/19. The new MTFP will also need to align to the recently refreshed Police & Crime Plan for Surrey.	Take informed decisions Deploy resources in a sustainable manner	We will: • assess the key assumptions made within the annual budget and MTFP • review the progress made in identifying savings for 2019/20 and beyond.

Value for Money Risks

<table>
<tr><th>What is the significant value for money risk?</th><th>What arrangements does the risk affect?</th><th>What will we do?</th></tr>
<tr><td colspan="3">Development and the implementation of the new Enterprise Resource Planning (ERP) system</td></tr>
<tr><td>A new Enterprise Resource Planning (ERP) system is currently being developed for implementation in August 2019. This is a significant joint project with Sussex and Thames Valley Police to modernise the key financial and HR systems. The project is a multi-pound IT restructure and so is subject to a significant number of inputs and assumptions regarding delivery.

However, the ERP implementation programme has experienced significant slippage and Surrey Police has incurred costs in excess of those envisaged in the initial business case. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the governance and management of the programme are a barrier to the effective use of resources at both the PCC and Surrey Police.

Grant Thornton's review of the ERP programme identified some significant risks to successful future delivery of the programme. There are six key areas which have the potential to become material risks to the delivery of the ERP programme. These are:
• Timeline,
• Resource,
• Business change,
• Data migration,
• Interdependencies, and
• Decision making.

Grant Thornton were satisfied that the slippage experienced by the programme during 2017/18 was not as a result of any significant deficiencies in the arrangements in place at Surrey Police.

We will look at how management has demonstrated its commitment to respond robustly to Grant Thornton's findings and work towards mitigating the risks identified during 2018/19.</td><td>Take informed decisions

Deploy resources in a sustainable manner

Work with partners and other third parties</td><td>We will:
• understand the current status of the project versus the initial project timeline.
• review the forecast budget versus initial budget and also the estimated likely outturn.
• comment on how management has responded to the issues raised and have mitigated the risks identified.</td></tr>
</table>

04 Audit materiality

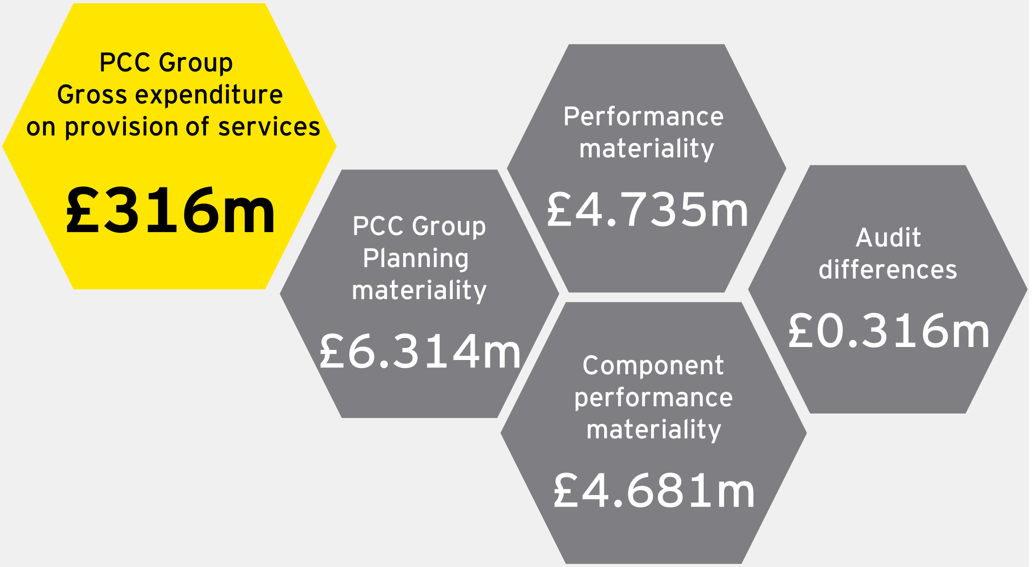
Materiality

Materiality

For planning purposes, materiality for the PCC Group and CC Single Entity for 2018/19 has been set at £6.314m & £6.241m respectively. This represents 2% of the PCC Group and CC Single Entity's prior year gross expenditure on provision of services.

Materiality for the PCC Single Entity has been set at 2% of the PCC Single Entity's prior year gross assets of £143.67m.

Materiality for the Police Pension Fund has been set at 1% of the higher of the prior year contributions receivable/benefits payable of the Police Pension Fund of £45.314m. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the PCC and CC confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality for the PCC Group, Single Entity Accounts & Police Pension Fund at £4.735m, £2.155m, £4.681m & £0.680m which represents 75% of planning materiality. This basis for assessment is consistent with prior year and no factor has been identified suggesting a change in basis.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over £0.316m for the Group relating to the comprehensive income and expenditure statement, balance sheet and the police pension fund financial statements that have an effect on income or that relate to other comprehensive income.

The thresholds for the CC (Single Entity), the PCC (Single Entity) and the Police Pension Fund are £0.312m, £0.144m and £45k respectively.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the joint independent audit committee, or are important from a qualitative perspective.

Specific materiality – We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures , related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. Where we do this we will notify you.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the PCC and CC's financial statements and arrangements for securing economy, efficiency and effectiveness in their use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. This approach is consistent with that taken in previous years.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our Audit Process and Strategy (continued)

Earlier Deadline for Production of the Financial Statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The PCC and CC now have less time to prepare the financial statements and supporting working papers.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

We note here that all of the components at Surrey Police are considered significant. This includes the Chief Constable (Single Entity), the Police and Crime Commissioner (Single Entity) and the Police Pension Fund.

06 Audit team

Audit team

Audit team structure:

Paul King
Associate Partner

Justine Thorpe
Manager

Ben Cooper
Lead Senior

Callum Coombes
Senior P/Q

EY Property Valuations	EY Pensions
Mark Gerold Director	Christopher Bown Partner

* Key Audit Partner

Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Property Valuations Team; Management Third party specialists – Bruton Knowles
Pensions disclosure	EY Actuaries; Management Third party specialists – Hymans Robertson and Government Actuarial Department (GAD)
Pension Fund	Grant Thornton LLP – auditor at Surrey County Council Pension Fund (administrators of the Local Government Pension Scheme of which the PCC and Surrey Police is an admitted member)
Pension Fund	EY Pensions Team PWC is commissioned by PSAA to undertake a review of Local Government Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC and CC's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the PCC and CC and we will discuss them with the Joint Independent Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	October		
	November		
Walkthrough of key systems and processes	December		
	January	Joint Independent Audit Committee	Audit Planning Report
Interim audit testing	February		
Interim audit testing	March		
	April	Joint Independent Audit Committee	Progress Report
	May		
Year end audit Audit Completion procedures	June		
	July	Joint Independent Audit Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Paul King, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and/or CC. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and/or CC. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20178

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£		£
Total PCC Fee – Code work	31,214	31,214	40,538
Total CC Fee – Code work	14,438	14,438	18,750
Total audit	45,652	45,652	59,288
Total other non-audit services	0	0	TBC
Total fees	45,652	45,652	59,288

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided; and
- ► The PCC and CC have an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with management in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the PCC and CC

We have detailed the communications that we must provide to the PCC and CC.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report to be presented at the December 2018 Joint Independent Audit Committee.
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report to be presented at the July 2019 Joint Independent Audit Committee.

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.
Fraud	▸ Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report to be presented at the December 2018 Joint Independent Audit Committee; and Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee.
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report to be presented at the December 2018 Joint Independent Audit Committee; and Audit results report to be presented at the July 2019 Joint Independent Audit Committee.

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee
Consideration of laws and regulations	▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the PCC and CC into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the PCC and CC may be aware of	Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Annual Audit Letter and Audit Results Report to be presented at the July 2019Joint Independent Audit Committee
Group audits	▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Planning Report to be presented at the December 2018 Joint Independent Audit Committee; and Audit Results Report to be presented at the July 2019 Joint Independent Audit Committee

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit 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 the Group's internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Joint Independent Audit Committee reporting appropriately addresses matters communicated by us to the Joint Independent Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.