**To:** **Joint Audit Committee**

**Date:** **28th July 2020**

**By:** **Mark Hodgson, Associate Partner, EY**

**Title:** **External Audit Plan for 2019/20**

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**Purpose of Report/Issue:**

The External Auditors are required to present their proposed Audit Plan and approach prior to the commencement of the audit. In addition to the usual plan there is an addendum which sets out the External Auditors proposed approach to dealing with the impact of Covid-19.

As a **Part 2 item** Members of the Committee will also be able to discuss the proposed external audit fee with the External Auditor.

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**Recommendation**

**The Committee is asked to review, comment and approve the External Audit Plan and the Addendum for 2019/20**

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**Background**

Under the revised Terms of Reference the JAC will provide advice and recommendations to the PCC or CC in relation to the following areas:

1. Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA.

2. Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.

This report seeks to fulfil these requirements

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**Background papers**

External Audit Plan 2019/20
Addendum to Audit Plan 2019/20 re Covid 19

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**Contact details –**
**Name:** **Mr Kelvin Menon**
**Job Title:** **Chief Finance Officer – Surrey OPCC**
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**Email address:** **kelvin.menon@surrey.pnn.police.uk**

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# Police and Crime Commissioner and Chief Constable for Surrey Police

## Audit Plan

Year ended 31 March 2020

13 March 2020

Building a better working world

Police and Crime Commissioner and Chief Constable for Surrey Police
Surrey Police HQ,
Mount Browne
Guildford,
Surrey

13 March 2020

Dear David and Gavin,

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Joint Audit Committee (JAC) with a basis to review our proposed audit approach and scope for the 2019/20 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. We have yet to commence our detailed audit planning and will update management and the Committee on any changes to the audit risks and strategy included in this plan arising from our completed risk assessment procedures.

This report is intended solely for the information and use of the Joint 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 24 April 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson, Associate Partner

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).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 April 2018)" 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 JAC and management of Surrey Police in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the 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 JAC 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 2019/20 audit strategy

# Overview of our 2019/20 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.**

**Significant risks**

| Risk | Risk identified | Change from PY | Details |
|---|---|---|---|
| Risk of fraud in revenue and expenditure recognition - specifically inappropriate capitalisation of revenue expenditure | 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. For Surrey Police, we consider that the risk could specifically manifest itself in the inappropriate capitalisation of revenue expenditure. |
| Misstatements due to fraud or error - management override of controls | Fraud risk | No change in risk or focus | There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. For Surrey Police, we consider that the risk could specifically manifest itself in the inappropriate capitalisation of revenue expenditure. |

In addition to the two significant risks above we have also identified areas of audit focus, which whilst not meeting the criteria to be treated as significant risks, do require us to focus our audit attention and procedures.

| Area of audit focus | Change from PY | Details |
|---|---|---|
| Pension liability valuation | No change in focus | The pension fund deficit is a material estimate that is disclosed on the balance sheet. It involves significant estimation and judgement which management engages an actuary to undertake. In 2018/19 the estimation was impacted by national issues relating to legal rulings and required a late revision to the reported figure. |
| Property, Plant and Equipment (PPE) valuations | No change in focus | PPE balances are some of the largest on the Balance Sheet and require management to make judgement and assumptions informed by an expert. Small changes in key assumptions can have a significant and material impact in the financial statements. |

# Overview of our 2019/20 audit strategy (continued)

In addition to the risks outlined above we have identified an area of audit focus.

| Area of focus | Change from PY | Details |
|---|---|---|
| Implementation of new auditing and accounting standards | New area of focus | **IFRS 16 Leases:** Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. There will be some disclosure requirements for the 2019/20 statement of accounts.<br><br>**Going Concern Compliance with ISA 570:** This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the PCC and CC will be the audit of the 2020/21 financial statements. |

## Materiality

**Group Planning materiality**

**£8.048m**

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 (PPF) is: Group - £8.048 million, PCC - £3.299 million, CC - £7.975 million, PPF - £0.910 million, respectively. This represents 2% of the prior years gross expenditure on provision of services for the Group and CC Single entity accounts, 2% of the prior year's gross assets for the PCC single entity accounts and 2% of the higher of benefits payable/contributions receivable for the Police Pension Fund.

**Group Performance materiality**

**£6.036m**

We have set performance materiality for the PCC Group, the subsidiaries and the Police Pension Fund as : Group - £6.036 million, PCC - £2.474 million, CC - £5.981 million, and PPF - £0.683 million which represents 75% of materiality.

**Group Audit differences**

**£0.402m**

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 £0.402 million 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 PCC, CC and PPF are £0.165 million, £0.399 million and £0.046 million respectively.

# Overview of our 2019/20 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 2020 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. Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the PCC and CC for Surrey Police's audit, we will discuss these with management as to the impact on the scale fee.

## Audit team

**Mark Hodgson, Associate Partner**

- Mark is an Associate Partner within the UK&I Assurance practice, with over 20 years experience of UK Local Government and Police 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 * – specifically in inappropriate capitalisation of revenue expenditure**

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could understate expenditure in the CIES and overstate PPE additions.

### 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.

For Surrey Police (Group, PCC) we consider that the risk could specifically manifest itself in the inappropriate capitalisation of revenue expenditure i.e. not recognising expenditure in the Comprehensive Income and Expenditure Statement (CIES) and financing the spend from capital.

This risk has been associated to the following testing areas:

- Balance Sheet - Property, Plant and Equipment -Additions (Group and PCC)

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- Sample test additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Use our data analytics tool to identify and test journal entries that moved expenditure into capital codes.
- 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; and
- Review and test revenue and expenditure cut-off at the period end date.

# Our response to significant risks (continued)

**Misstatements due to fraud or error ***

### Financial statement impact

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

### What is the risk?

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. For Surrey Police, we consider that the risk could specifically manifest itself in the inappropriate capitalisation of revenue expenditure.

### What will we do?

In order to address this risk we will carry out a range of procedures, in addition to those set out on the previous page, including:

- Consider what specific fraud risks exist during audit planning.
- 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 and Actuarial Assumptions**<br><br>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 PCC must also do similar in respect of the Police Pension Fund.<br><br>The Group and CC pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £2.157 billion<br><br>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.<br><br>In the previous year the pension liability disclosed in the accounts was impacted by national issues that necessitated an updated IAS 19 report from the actuary. It was also impacted by material changes to the value of pension assets at the year end, compared to the estimate made by the actuary to inform the original IAS 19 report. | In order to address this risk we will carry out a range of procedures including:<br><br>▸ 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. We note that historically this information has been provided in late July. Whilst we will continue to engage with the Pension Fund auditors, we anticipate the timing for 2019/20 to be similar to the prior year;<br><br>▸ assess the work of the LGPS Pension Fund actuary (Hymans Robertson) and the Police Pension actuary (GAD) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; and<br><br>▸ Review and test the accounting entries and disclosures made within the Group and CC financial statements in relation to IAS19, including any updates to the value of year end assets. |

# Other areas of audit focus (continued)

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Property, Plant and Equipment valuation**<br><br>The fair value of Property, Plant and Equipment (PPE) represents 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.<br><br>A specific area of focus this year will be the valuation of the Leatherhead site for the new Police HQ which was valued at some £15 million in the 2018/19 financial statements. | In order to address this risk we will carry out a range of procedures including:<br>▶ Consider the work performed by the PCC's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;<br>▶ Sample test key asset information used by the valuer in performing their valuation;<br>▶ 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. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;<br>▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;<br>▶ Consider changes to useful economic lives as a result of the most recent valuation; and<br>▶ Test accounting entries have been correctly processed in the financial statements.<br>We will aim to commence this work as early as is possible. |

# 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? |
|---|---|
| **Going Concern Compliance with ISA 570**<br><br>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.<br><br>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the PCC Group will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the PCC Group is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.<br><br>The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'<br><br>'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.' | The revised standard requires:<br><br>▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;<br><br>▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;<br><br>▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the PCC Group are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;<br><br>▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and<br><br>▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.<br><br>The revised standard extends requirements to report to regulators where we have concerns about going concern.<br><br>We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21. |

# Other areas of audit focus (continued)

| What is the risk/area of focus? | What will we do? |
| --- | --- |
| **IFRS16 – leases**<br><br>IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.<br><br>Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'.<br><br>This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:<br>▸ the identification of leases<br>▸ the recognition of right-of-use assets and liabilities and their subsequent measurement<br>▸ treatment of gains and losses<br>▸ derecognition and presentation and disclosure in the financial statements,<br>▸ the management of leases within the Prudential Framework.<br><br>The guidance also covers the transitional arrangements for moving to these new requirements, such as:<br>▸ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees<br>▸ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes). | IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.<br><br>The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.<br><br>Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.<br><br>In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:<br>▸ all leases which need to be accounted for<br>▸ the costs and lease term which apply to the lease<br>▸ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.<br><br>We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit. |

# 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 2019/20 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 initial 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 2019/20 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 the PCC and CC will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our initial risk assessment will therefore consider both the potential financial impact of the issues we identify, 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 following as areas of focus for our Value for Money Conclusion work. These are the:

- robustness of Medium Term Financial Planning;
- implementation of the EQIP, Enterprise Resource Planning (ERP) system;
- delivery of the Building the Future Programme.

# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Robustness of Medium Term Financial Planning)**<br><br>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. However, current identified savings are insufficient to meet the budget gap over the next three years. A full savings plan has been identified for 2019/20 and officers are working to identify savings for 2020/21 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 £10.5 million. This scenario takes a pessimistic view of central government funding and local freedoms to increase precept from 2020/21 onwards.<br><br>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.<br><br>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 2019/20. The new MTFP will also need to align to the recently refreshed Police & Crime Plan for Surrey. | Take informed decisions<br><br>Deploy resources in a sustainable manner | In order to address this risk we will carry out a range of procedures including:<br>• assess the key assumptions made within the annual budget and MTFP<br>• review the progress made in identifying savings for 2020/21 and beyond. |

# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Implementation of EQIP, the Enterprise Resource Planning (ERP) system**<br>This is a significant joint project with Thames Valley and Surrey Police aiming to modernise key financial systems. This multi-million pound IT restructure has been subject to a significant number of delays and changes to planning assumptions regarding delivery. Last year, we undertook a detailed review of the arrangements that Sussex Police had in place to manage the risks associated with the implementation of the ERP system.<br>The project has experienced well documented challenges in respect of delivery to time and budget and it is currently rated an amber / red risk status with a revised go live date of September 2020 for Sussex and Surrey | Take informed decisions<br><br>Deploy resources in a sustainable manner<br><br>Work with partners and other third parties | In order to address this risk we will carry out a range of procedures including:<br>• understand the current status of the project versus the revised project timeline.<br>• review the forecast budget and the estimated likely outturn and the impact of this on the MTFP.<br>• assess how management continue to respond to the issues raised and how any associated risks are being mitigated.<br>We will perform these procedures alongside the auditors of Surrey and Thames Valley. |
| **Delivery of the Building the Future programme**<br>The Building the Future (BTF) programme is a 4 - 5 year challenging project for Surrey Police to transform the Force estate and introduce agile working practices supported by mobile technology. A site in Leatherhead was purchased for some £15 million in March 2019 to replace five sites, including the HQ, Reigate and Woking teams. An interim Programme Manager has been appointed and the PCC has established and chairs the six weekly BTF Board which has already made key decisions on roles and timetable.<br>Given the financial, operational and reputational risks involved in a project of this significance, we will be reviewing the arrangements the PCC and Force have taken to appropriately manage those risks. | Take informed decisions<br><br>Deploy resources in a sustainable manner | In order to address this risk we will carry out a range of procedures including:<br>• consider the arrangements that have been put into place to plan, manage and report the project, including the governance arrangements that have been put into place and how specialised support has been considered. |

# 04 Audit materiality

# Audit materiality

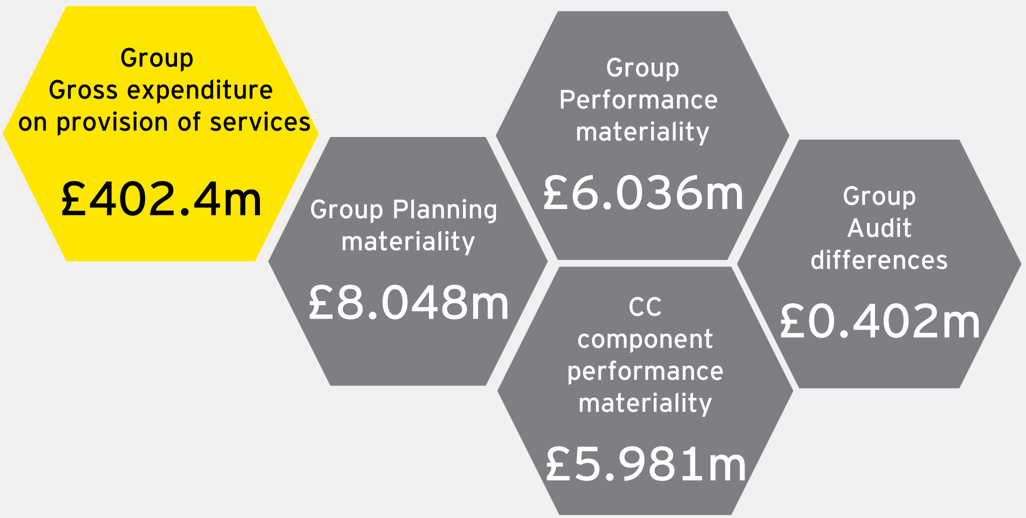
## Materiality

For planning purposes, we have set materiality for the Group and CC for 2019/20 at £8.048 million and £7.975 million respectively. This represents 2% of the Group and CC's prior year gross expenditure on provision of services.

Materiality for the PCC, of £3.299 million, has been set at 2% of the PCC's prior year gross assets of £164.935m.

Materiality for the Police Pension Fund, of £0.910 million, has been set at 2% of the higher of the prior year contributions receivable/benefits payable of the Police Pension Fund of £45.510 million.

Materiality will be reassessed throughout the audit process.




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 used the same basis for assessment as the prior year.

**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. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount 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.

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 JAC, 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 financial statements and arrangements for securing economy, efficiency and effectiveness in its 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 its 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 substantively testing details of transactions and amounts. For 2019/20 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.

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 JAC.

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.

# 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:**

The group audit team is led by Mark Hodgson, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY. We set out below the engagement team structure for our audit.

**Mark Hodgson***
Engagement Partner

**Justine Thorpe**
Audit Manager

**Callum Coombs**
**Lead Senior**

Mark Hodgson is the Audit Engagement Partner will sign the opinions on the financial statements. Justine Thorpe and Callum Coombs will have responsibility for all operational matters and for the day to day management and delivery of the external audit service.

* Key Audit Partner

# Use of specialists

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 | Management's third party specialists – Bruton Knowles |
| Pensions disclosure | EY Actuaries; Management's 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<br>PWC is commissioned by the NAO 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

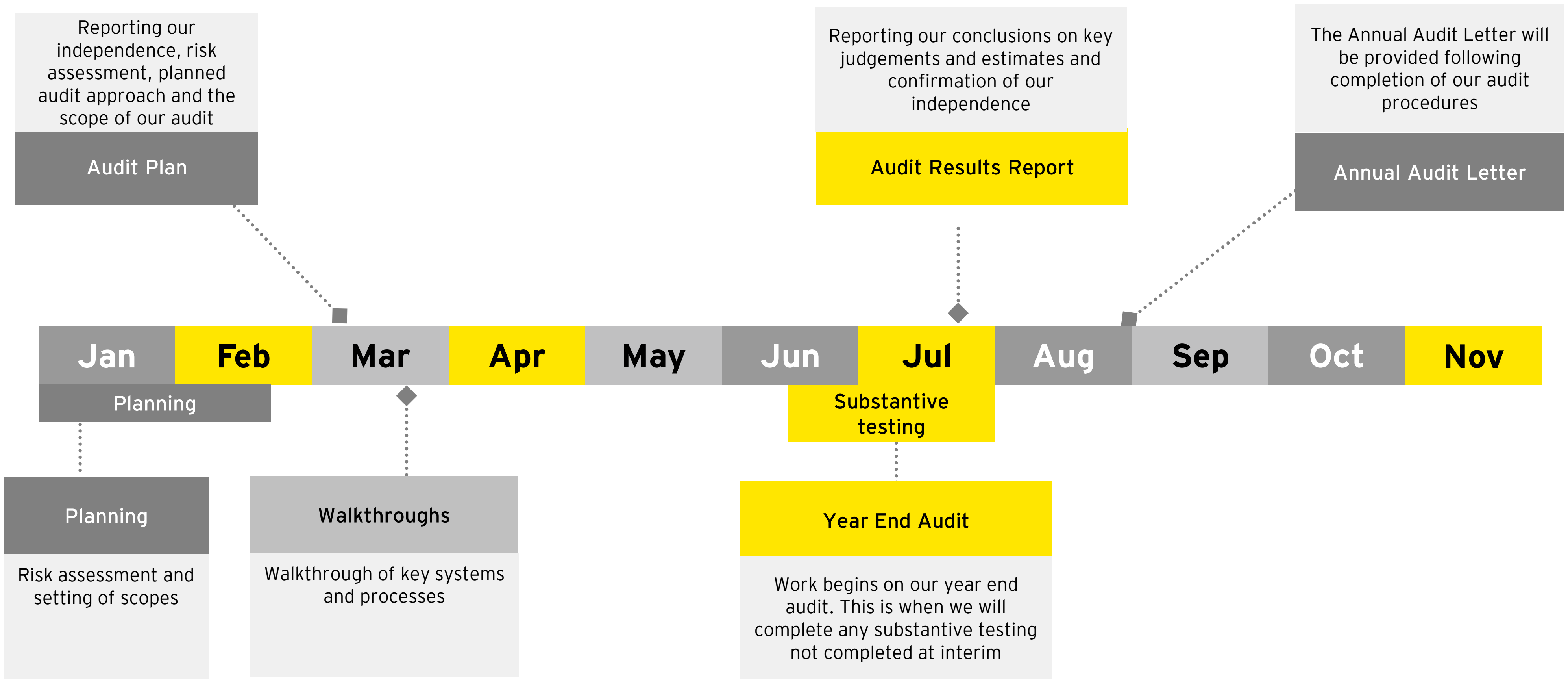
# Audit timeline

## Timetable of communication and deliverables

**Timeline**

Below is a timetable showing the key stages of the audit and the deliverables we plan to provide to you through the audit cycle in 2019/20.

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



# 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;<br>▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;<br>▸ The overall assessment of threats and safeguards;<br>▸ Information about the general policies and process within EY to maintain objectivity and independence.<br>▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. | ▸ 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;<br>▸ Details of non-audit services provided and the fees charged in relation thereto;<br>▸ 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;<br>▸ Written confirmation that all covered persons are independent;<br>▸ 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;<br>▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and<br>▸ 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. At the date of preparing this report we are not aware of any threats to our independence that we need to safeguard against. We will update this assessment throughout the year. 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 Mark Hodgson, 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 Group. 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 zero. 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.

### 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 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.

# New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

# Other communications

### EY Transparency Report 2019

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 end 30 June 2019:

https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

# 09 Appendices

# Appendix A

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. 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.

| | Scale fee 2019/20 | Final Fee 2018/19 |
|---|---|---|
| | £ | £ |
| PCC Scale Fee | 29,805 | 29,805 |
| CC Scale Fee | 11,550 | 11,550 |
| Additional fees: | | |
| • VFM significant risks | TBC | 10,735 |
| Total audit | 41,355 | 52,090 |
| Total other non-audit services | 0 | 0 |
| Total fees | 41,355 | 52,090 |

***All fees exclude VAT***

Note (1) The 18/19 Code work includes an additional fee of £10,735, which relates to additional work reviewing the two Value for Money risks of, the Implementation of the ERP Programme and the delivery of a robust medium term financial plan. We have agreed the variation with officers, but are awaiting approval from PSAA.
We will need to assess the programme of work required to address this years risk and gain sufficient assurance for reporting purposes.

For 2019/20, the scale fee will be impacted by a range of factors (see page 7) which will result in additional work. The issues we have identified at the planning stage which will impact on the fee include:

- The need to audit the significant risks presented in this audit plan, which includes incorrect capitalisation of expenditure and any valuation issues associated with Property, Plant & Equipment;
- The VFM risks identified within the Audit Plan.

We will continue to discuss the impact of these factors with management and the impact on the final fee.

The Scale 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.

# 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.<br>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 Plan - April 2020 Joint 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<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report - July 2020 Joint 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:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | Audit Results Report - July 2020 Joint Audit Committee. |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Corrected misstatements that are significant<br>▸ Material misstatements corrected by management | Audit Results Report - July 2020 Joint 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<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ A discussion of any other matters related to fraud | Audit Results Report - July 2020 Joint Audit Committee. |
| Related parties | ▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the entity | Audit Results Report - July 2020 Joint Audit Committee. |

# Appendix B

## Required communications with the PCC and CC (continued)

| Required communications | What is reported? | Our Reporting to you<br>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<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence | Audit Plan - April 2020 Joint Audit Committee; and<br><br>Audit Results Report - July 2020 Joint Audit Committee. |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit Results Report - July 2020 Joint 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 - July 2020 Joint Audit Committee. |
| Auditors report | ▸ Key audit matters that we will include in our auditor's report<br>▸ Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report - July 2020 Joint Audit Committee. |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit Plan - April 2020 Joint Audit Committee; and<br><br>Audit Results Report - July 2020 Joint Audit Committee. |

# Appendix B

## Required communications with the PCC and CC (continued)

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures | Audit Results Report - July 2020 Joint 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<br>▸ 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 - July 2020 Joint Audit Committee. |
| Internal controls | ▸ Significant deficiencies in internal controls identified during the audit | Audit Results Report - July 2020 Joint Audit Committee. |
| Group audits | ▸ An overview of the type of work to be performed on the financial information of the components<br>▸ 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<br>▸ 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<br>▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>▸ 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 Plan - April 2020 Joint Audit Committee; and<br><br>Audit Results Report - July 2020 Joint 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.<br>▸ 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.<br>▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.<br>▸ Concluding on the appropriateness of management's use of the going concern basis of accounting.<br>▸ 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.<br>▸ 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 JAC reporting appropriately addresses matters communicated by us to the JAC and reporting whether it is materially inconsistent with our understanding and the financial statements; and<br>▸ Maintaining auditor independence. |

# Additional audit information (continued)

## Purpose and evaluation of materiality

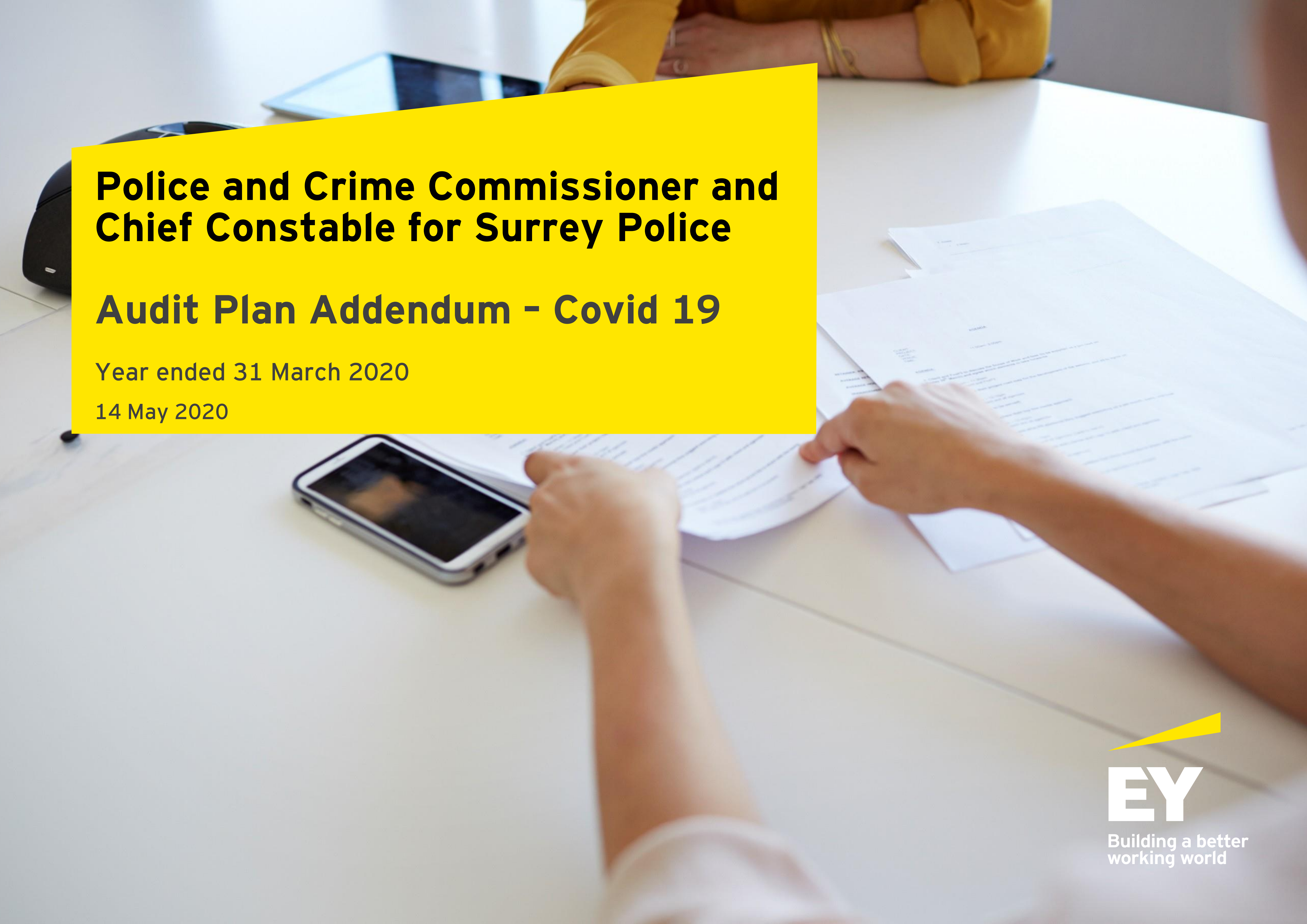
For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions 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.

## EY | Assurance | Tax | Transactions | Advisory



# Police and Crime Commissioner and Chief Constable for Surrey Police

## Audit Plan Addendum - Covid 19

Year ended 31 March 2020

14 May 2020

EY
Building a better working world

# Other areas of audit focus – update consideration

**Impact of Covid-19**

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the Police (PCC/CC) to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Police's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- **Going concern** – management's assessment of whether the Police is a going concern will need to consider the impact of the current conditions on the Police's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- **Revenue recognition –** there may be an impact on income collection, due to the lockdown and restriction of movement due to COVID-19.
- **Tangible assets –** there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The Police may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- **Pensions** – volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- **Receivables** – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- **Holiday and sickness pay** – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- **Government support –** any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- **Annual Governance Statement–** the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the Police's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.