



Annual Governance Statement and Financial Statements 2019/20

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| Title: | Annual Governance Statement & Financial Statements 2019/20 |
| Version: | 1 |
| Purpose: | To present the Draft Annual Statement of Accounts and Annual Governance Statement for 2019/20 currently being audited for both the Police and Crime Commissioner (PCC) and the Chief Constable (CC) for review by the Audit Committee. |
| ACPO / Strategic Lead: | Kelvin Menon, Treasurer |
| National Decision Model compliance: | Yes |
| Date created: | 6 July 2020 |
| Date to be reviewed: | |

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1. Introduction

- 1.1 This report provides the Joint Audit Committee with an update on regulatory changes, production timetable and progress with the Annual Statements of Accounts and Annual Governance Statements for 2019/20 for review by the Audit Committee.
- 1.2 The PCC and CC as separate corporation sole entities are required to prepare individual Statement of Accounts, the consolidated position for the PCC Group is included within the PCC's Statement of Accounts.
- 1.3 The Annual Statement of Accounts and Annual Governance Statement for both the PCC and the CC are prepared as soon as possible after the end of the financial year.
- 1.4 The 2019/20 PCC and CC Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, based on International Financial Reporting Standards, issued by the Chartered Institute of Public Finance & Accountancy.
- 1.5 The Annual Governance Statements (AGS) are contained within each of the Statement of Accounts. The AGS documents provides assurance that both corporation soles have in place governance frameworks that cover the systems, processes, culture and values through which each organisation manages its activities. The preparation of the Annual Governance Statement is a requirement of the Accounts and Audit (England) Regulation 2015 which is also reflected in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- 1.6 Following the external audit of both the PCC & CC financial statements minor amendments have been made to the accounts as detailed in the Audit Findings Report.

2. Executive Summary

- 2.1 This report provides the Joint Audit Committee with an update on regulatory changes, production timetable and progress with the Annual Statements of Accounts and Annual Governance Statements for 2019/20 for review by the Audit Committee.
- 2.2 Joint Audit Committee members were informed in January 2020 that very few changes had been made to the 2019/20 regulatory CIPFA Code with none that would have any significant impact on the Surrey Police accounts.
- 2.3 One key change to the accounts this year is that all pension accounting is reflected within both the PCC & Group accounts as well as the Chief Constable accounts, in line with best practice. In previous years a judgement had been made to include the accounting for all staff pension liability and reserve movements within the Chief Constable accounts, including those elements that related to staff employed within the Office of the PCC.
- 2.4 In April, Chief Finance Officers were updated by a report from the Corporate Finance Manager regarding statutory deadline changes implemented to deal with the Covid-19 pandemic which impact on the 2019/20 Annual Accounts and audit.
- 2.5 At that time the intention was to stick to the original production timetable as far as possible, using the flexibility of the revised statutory deadlines only if necessary. A number of issues were encountered by the finance team causing delays of approximately 2.5 weeks to preparation of draft accounts. First draft accounts were issued to EY on 16 July which was also the week EY started their main audit work on the Surrey accounts. Draft accounts were uploaded to the external websites on 30 June 2020 following authorisation by Surrey Police and PCC CFO's.
- 2.6 The Draft accounts contain a number of areas that are not complete due to complications arising from the Covid-19 pandemic, these include:
 - **2019/20 Internal Audit Opinion** was not available for inclusion within the AGS

- **Asset valuations for land and buildings** as at 31 March 2020 were included on a pre-pandemic valuation basis which may contain a material uncertainty if future service potential is reduced by the economic impact of the Covid-19 virus pandemic on the property market.
- **Pension fund** measurements may also contain a material uncertainty because they are also impacted by Covid-19 due to greater volatility of fair values relating to the pension investments, assets and liabilities.
- **Going Concern** is not necessarily an issue for Surrey Police from a legal perspective because of government obligations to maintain local authority policing bodies but from an accounting perspective the uncertainty over future funding settlements does present a going concern issue. In the final accounts there will be a going concern note.

2.7 The following table compares the new statutory deadlines with those previously in place:

| Annual Accounts | Original Deadline 2020 | Amended Deadline 2020 |
|---|------------------------|-----------------------|
| Published Draft Statements of Accounts signed by CFO | 31 May | 31 August |
| Published Draft Annual Governance Statement | 31 May | 31 August |
| Advertise Public Inspection of Accounts on website | 15 May | 14 August |
| Accounts Open for Public Inspection for 30 working days | 01 June | 01 September |
| External Audit on and off site | June-July | June-November |
| WGA Cycle 1 – Draft submission | 30 June | 30 September |
| Accounts Closed to Public Inspection | 10 July | 13 October |
| Publication of Final Statements of Accounts for 2019/20 | 31 July | 30 November |
| Publication of Final Annual Governance Statement | 31 July | 30 November |
| WGA Cycle 2 – Final submission | 11 September | 4 December |
| IFRS 16 Lease Accounting Implementation | 01 April 2020 | 1 April 2021 |

3. Main Issues

- 3.1 A number of new issues arise that impact on the Financial Accounts Reporting requirements in connection with Covid-19.
- 3.2 **Necessity to work remotely** impacted both internal teams and external partners to find effective ways of communicating and coordinating adequate equipment and access to be able to work from home effectively. For example:
- IT drop out at times caused delay to normal productivity levels.
 - Additional priorities relating to the pandemic required finance staff to focus activities away from accounts production e.g. adapting procedures, cash flow management to support essential supply chains and/or purchase of personal protective equipment for front-line staff and nationally.
 - Valuers requiring greater input and information from finance and estate teams to support property valuations at the year-end date.
- 3.3 **Audit Plan Addendum** notes the following areas for audit consideration due to Covid-19:
- Going concern
 - Revenue recognition
 - Tangible assets
 - Pensions
 - Receivables
 - Holiday and sickness pay
 - Government support
 - Annual Governance Statement

3.4 Additional disclosures and consideration of potential impacts of Covid-19 are necessary throughout the accounts including the following sections:

- **Narrative reporting**
 - Provision of services
 - Employees and workforce
 - Supply chains
 - Reserves, financial performance, financial position
 - Cash flow management
 - Plans for recovery
- **Notes to the Accounts**
 - New Going Concern Note for Impact of Covid-19
 - Critical Judgements in Applying Accounting Policies
 - Events After the Balance Sheet Date
 - Assumptions Made About Future and Other Major Sources of Estimation Uncertainty
 - Property, Plant and Equipment, Investment Properties and Assets Held for Sale
 - Financial Instruments Disclosures
 - Pensions
 - Annual Governance Statements

4. Key Risks

- 4.1 **Risk of not meeting statutory deadlines for 2019/20**
We consider this risk to be low given the extensions to statutory deadlines.
- 4.2 **Risk of not complying with new disclosures and audit requirements as a result of Covid-19 impacts on 2019/20 accounts**
This is a greater risk because there is a lack of national consensus as yet on some areas e.g. Property valuations basis for current and fair values.
- 4.3 **Risk of audit qualification as ‘adverse’ or ‘except for’**
Audit report modifications could arise in relation to an ‘emphasis of matter paragraph’ or potential qualification on the grounds of material uncertainty if the Surrey Police group were too close to minimum reserve levels for going concern or if the figures for the Property, Plant and Equipment valuations were not verified adequately.
- We will aim to avoid qualification but may wish to discuss the distinction between audit requirement and public sector accounting regarding material uncertainty over property valuations. Over/under statement of property assets on the Balance Sheet of Surrey Police accounts is mitigated by the statutory override to neutralise impact on taxpayer funds and therefore does not change the overall meaning of the accounts to the reader. It is therefore possible that qualification on this basis in the exceptional year of Covid-19 may be more acceptable than under normal conditions but this option will only be explored if national consensus is not reached by the time of signing final accounts and/or if it would require an unreasonable amount of resources to resolve.
- 4.4 **Risk of delay to finalising the accounts due to auditor sign off**
This is highly likely that EY will not sign off the accounts by the end of July 2020 due to the uncertainties noted above.

5. Action underway and due for further action

- 5.1 The finance team are working through the impacts of Covid-19 in all areas of the accounts and working closely with the external audit team regarding disclosures and accounting treatment.
- 5.2 Chief Finance Officers and Joint Audit Committee members will be kept fully up to date and involved as the accounts and audit progress.

6. Explanation behind current status of accounts and audit

- 6.1 Covid-19 impacts have slowed progress and introduced complexities to the annual accounts and audit for 2019/20.

7. Recommendation

- 7.1 In accordance with the PCC's governance arrangements, committee members are asked to consider the issues arising and progress to date for the 2019/20 Annual Statement of Accounts and Annual Governance Statements.