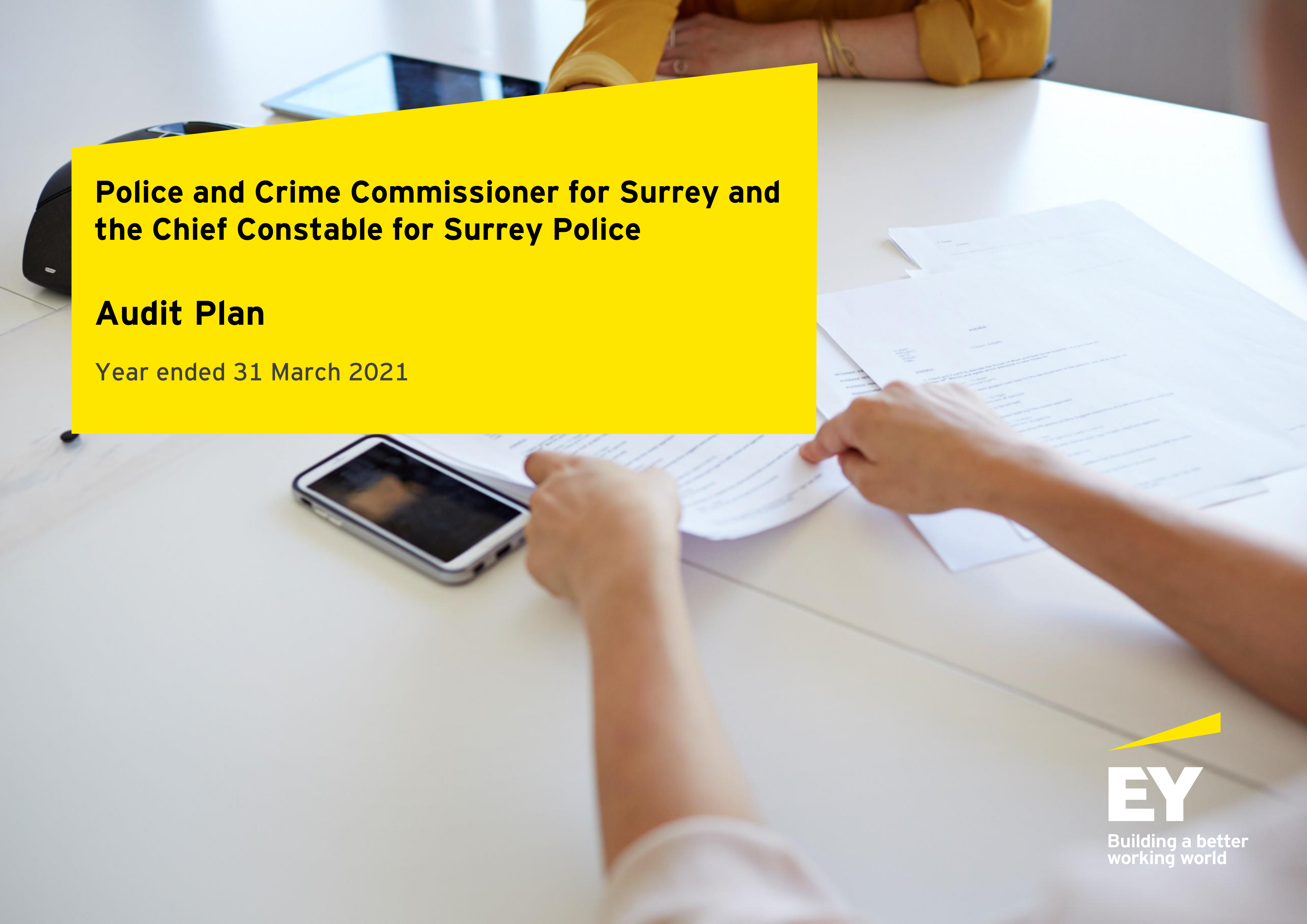


Police and Crime Commissioner for Surrey and the Chief Constable for Surrey Police

Audit Plan

Year ended 31 March 2021

Building a better working world

14 July 2021

Office of the Police and Crime Commissioner for Surrey and the Chief
Constable for Surrey
PO Box 412,
Guildford,
Surrey
GU3 1YJ

Dear Lisa and Gavin

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 Police and Crime Commissioner (PCC), Chief Constable (CC) and Joint Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 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 assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner and Chief Constable for Surrey, and sets out our planned audit strategy in response to those risks. Our planning procedures remain ongoing, specifically in relation to the new requirements for the value for money conclusion. We will report our value for money risk assessment and inform the PCC, CC and Joint Audit Committee if there are any significant changes or revisions to our strategy for the financial statements audit upon completion of these procedures at the following meeting of the Committee.

This report is intended solely for the information and use of the PCC, CC, 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 28 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Elizabeth Jackson, 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 PCC, CC, Joint 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 PCC, CC, Joint 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 PCC, CC, Joint 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 2020/21 audit strategy

Overview of our 2020/21 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), Chief Constable (CC) and the Joint Audit Committee 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
Misstatements due to fraud or error – management override of controls	Fraud risk	No change in significant 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.
Risk of fraud in revenue and expenditure recognition – specifically inappropriate capitalisation of revenue expenditure	Fraud risk	Change in focus of 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, we consider that the risk could specifically manifest itself in the inappropriate capitalisation of revenue expenditure.
Risk of fraud in revenue and expenditure recognition – specifically the capitalisation of the EQUIP assets	Fraud risk	New risk	Surrey Police are proposing to recognise £1.918 million of EQUIP assets, transferred from KPMG, rather than writing off the spend incurred on the project to revenue. We will review the appropriateness of this treatment as part of our audit. There is a risk of inappropriate capitalisation of revenue if Surrey Police capitalise the spend as an intangible asset without there being a clear transfer of economic benefits to Surrey Police in terms of the assets being "fit for purpose" in the development of the Enterprise Resource Planning systems.
Valuation of Land & Buildings in Property, Plant and Equipment (PPE) under fair value - Estimated-Use-Value (EUV)	Significant risk	Change in focus of risk	The value of land and buildings in PPE held at EUV represent significant balances in the financial statements and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. With the revisions to ISA 540 and our approach to disaggregating assets we have increased our risk focus on the hardest to value assets.

Overview of our 2020/21 audit strategy (continued)

In addition to the 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.

Areas of audit focus

Risk	Inherent Risk	Change from PY	Details
Valuation of Land and Buildings in PPE under Depreciated Replacement Cost (DRC)	Inherent Risk	No change in risk or focus	The value of land and buildings in PPE under DRC also represent significant balances in the financial statements and are subject to valuation changes and impairment reviews. Whilst there is a lesser degree of material judgemental inputs compared to assets held at EUV, management must still apply estimation techniques to calculate these balances held in the balance sheet. Although there is a risk for land and buildings under DRC due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets are inherently not subject to material uncertainty arising due to market conditions. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management's specialist and assumptions underlying fair value estimates.
Valuation of the Police Pension Scheme Liability	Inherent risk	No change in risk or focus	The Police Pension Fund valuations involve significant estimation and judgement which management engages external specialists to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the expenditure, for example on past service costs, to be disclosed.
Cashflow statement preparation	Inherent risk	New area of focus	Our review of the Cashflow Statement in 2019/20 accounts identified a number of presentational and disclosure errors that required amendment before the audit opinion could be issued. We have recognised the statement as an area of audit focus for 2020/21 accounts to ensure this has been properly and accurately prepared.

Overview of our 2020/21 audit strategy (continued)

In addition to the 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.

Areas of audit focus

Risk	Inherent Risk	Change from PY	Details
Valuation of Pension Liabilities (Local Government Pension Scheme)	Inherent Risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 requires the PCC and Group and CC to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS), administered by Surrey County Council, in which it is an admitted body. The PCC and Group's and the CC's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the balance sheet. The information disclosed is based on the IAS 19 report issued to the PCC and the CC by the Actuary. Accounting for this scheme 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. In 2019/20, late changes of £1.072 million were required to disclosures in the financial statements arising from the McCloud legal judgement. The impact for 2020/21 is not yet known.
Going Concern Compliance with ISA 570	Inherent Risk	No change in risk or focus	ISA 570 has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospect 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/CC will be the audit of the 2020/21 financial statements.
Property, Plant and Equipment (PPE) disposals	Inherent Risk	New area of focus	On receipt of the draft 20/21 accounts we identified that PPE disposals totalled around £17m which was unexpected. We have identified disposals as an inherent risk and area of audit focus as this is material movement in the year. Initial conversations with management have indicated that the IT disposals go back further than the 20/21 year so an adjustment may be required to the accounts.

Overview of our 2020/21 audit strategy (continued)

Materiality

Group	CC	PCC
Planning materiality £6.148m	Planning materiality £6.059m	Planning materiality £3.476m
Performance materiality £4.611m	Performance materiality £4.544m	Performance materiality £2.607m
Audit differences £307,435	Audit differences £302,979	Audit differences £173,838

The materiality for Group and CC has been set at £6.148 million and £6.059 million respectively, using 2% of the prior year's gross expenditure on provisions of services.
The materiality for PCC has been set at £3.476 million, using 2% of the prior year's assets.

Performance materiality has been set at 75% of materiality for the Group, CC and PCC – which is consistent with the prior year.

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 £303k for the CC and £174k for the PCC. Other misstatements identified will be communicated to the extent that they merit the attention of the PCC and CC who are Those Charged with Governance.

Overview of our 2020/21 audit strategy (continued)

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 Surrey Police Group and its PCC, and the financial statements for Surrey Police CC give true and fair views of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on value for money in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

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 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 value for money. 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.

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.

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.

As part of our work to identify fraud risks during the planning stage, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

These are set out on the following page.

What will we do?

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

- Identify 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;
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - Testing of journal entries and other adjustments in the preparation of the financial statements;
    - Reviewing accounting estimates for evidence of management bias; and
    - Evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

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 the Group and PCC single entity, 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; and
- Review and test revenue and expenditure recognition policies.

Our response to significant risks (continued)

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 in relation to the EQUIP project

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 Intangible Assets 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 the Group and PCC single entity, we consider that the risk could specifically manifest itself in the inappropriate capitalisation of revenue expenditure in relation to the decision to exit the EQUIP contract i.e. not recognising expenditure in the Comprehensive Income and Expenditure Statement (CIES) and financing the "separation charge" of which Surrey Police's share is £1.918 million from capital in return for transferred software, classified as intangible assets at a total value of £1.918 million.

This risk has been associated to the following testing areas:

- Balance Sheet – Intangible Assets – Additions (Group and PCC)

What will we do?

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

- Review any judgements made by management in determining the accounting treatment of the £1.918 million of capital expenditure in relation to the EQUIP project to ensure it is in line with the expenditure recognition policy.
- Sample test additions to Intangible Assets 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; and
- Use our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

Management have yet to formulate business plans to show how the £1.918 million of transferred EQUIP assets may be "fit for purpose" in its plans to update the Force's legacy systems.

We have asked for further information to support Surrey Police's decision to capitalise the "separation charge" in return for the developed software. We understand that further information may be produced for the JAC meeting of 28th July.

Our response to significant risks (continued)

We have set out the significant risks 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.

Valuation of Land & Buildings in Property, Plant and Equipment (PPE) under fair value - Estimated-Use-Value (EUV)

Financial statement impact

Misstatements that occur in relation to the risk of valuation of assets held at fair value could affect multiple balances and disclosures throughout the financial statements.

At 31 March 2020, the value of PPE was £173 million.

What is the risk?

The value of land and buildings in PPE, at some £173 million at 31 March 2020, represent significant balances in the PCC's financial statements and are subject to valuation changes and impairment reviews.

Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipate that the valuer will not be able to conduct site visits due to the restrictions that are in place and that the valuer will have to perform a remote approach to valuing the properties which will further increase the risk around these valuations.

What will we do?

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

- Consider the work performed by Surrey Police's valuers (Bruton Knowles), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Challenge the assumptions used by the valuer by reference to external evidence and through engaging our EY Real Estate valuation specialist team to review any significant or unusual movements in valuation, and the value of the developing HQ site at Leatherhead;
- Stratifying the PPE valuation sample, by valuation methodology, and then testing key asset information used by the valuers in performing either their DRC (Depreciated Replacement Cost) or EUV (Existing Use Value) valuation;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. yield);
- Consider the annual cycle of valuations to ensure that PPE assets have been valued within a 5 year rolling programme as required by the Code. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review any properties not subject to valuation in 2020/21 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.

Audit risks

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Pension Liability Valuation and 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 for police staff and similar in respect of the Police Pension Fund for police officers. 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 2020 this totalled £2.028 billion. 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. 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: ▸ 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 2020/21 to be similar to the prior year; ▸ 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 ▸ 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.
Cashflow Statement Our review of the Cashflow Statement in 2019/20 accounts identified a number of presentational and disclosure errors that required amendment before the audit opinion could be issued. We have recognised the statement as an area of audit focus for 2020/21 accounts to ensure this has been properly and accurately prepared.	▸ Review the preparation of the Cashflow Statement and verify the accuracy of the disclosures made in relation to the other areas of the accounts.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
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 Group will be the audit of the 2020/21 financial statements. Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced some income losses. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. The revised standard increases the work we are required to perform when assessing whether the PCC and 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 Joint Audit Committee.	The revised standard requires: ▸ 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; ▸ greater work for us to challenge management's assessment of going concern, including the cashflow forecast covering the foreseeable future and its impact on liquidity; ▸ improved transparency with a new reporting requirement 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; ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Property, Plant and Equipment (PPE) Disposals On receipt of the draft 20/21 accounts we identified that PPE disposals totalled around £17m which was unexpected. We have identified disposals as an inherent risk and area of audit focus as this is material movement in the year. Initial conversations with management have indicated that the IT assets shown as disposals in the 20/21 accounts were nil NBV and not in use prior to 20/21. An adjustment may be required to the accounts.	In order to address this risk we will carry out a range of procedures including: ▶ Review management's exercise to identify assets with a nil NBV and resulting disposal in the accounts, including which year they should have been disposed ▶ Sample test disposals from Property, Plant and Equipment to ensure that they have been disposed of in the year and are recorded at the correct value in the accounts.

Other areas of audit focus (continued)

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.

We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.

We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.

You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.

We may ask for new or changed management representations compared to prior years.

03 Value for Money Risks

Value for Money

The NAO has a new Code of Audit Practice for 2020/21. The impact on the PCC/CC and our responsibilities are summarised in the table below.

PCC/CC responsibilities for value for money

The PCC and CC are required to maintain an effective system of internal control that supports the achievement of policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the PCC and CC are required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing its own governance statement, the PCC and the CC tailor the contents to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

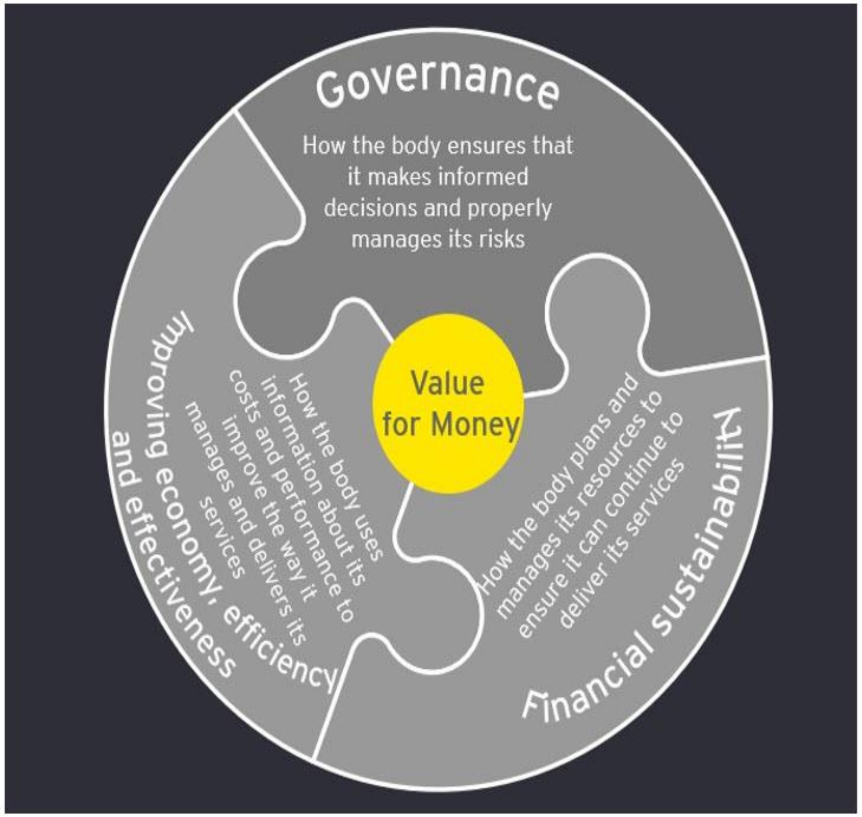
Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the PCC and the CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to both the PCC and the CC a commentary against specified reporting criteria (see below) on the arrangements they have in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. The specified reporting criteria are:

- **Financial sustainability** - How the PCC and the CC plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the PCC and the CC ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the PCC/CC uses information about its costs and performance to improve the way it manages and delivers its services.

We will be reviewing progress on, the following, as part of our VFM risk assessment:

- post EQUIP solution for Enterprise Resource Planning; and
- Building the Futures project with the development of a new headquarters and the move to more agile working.



Value for Money

Planning and identifying VFM risks

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the PCC/CC's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the PCC/CC's arrangements, we are required to consider:

- The Authority's governance statement;
- Evidence that the PCC/CC's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the PCC/CC to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the PCC/CC's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the PCC/CC;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the PCC/CC's reported performance;
- Whether the issue has been identified by the PCC/CC's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the PCC/CC has had to respond to the issue.

Value for Money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Joint Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the PCC/CC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the PCC/CC's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

The new Code promotes more timely reporting by auditors. So where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we can report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Summary of changes in VFM requirements between the 2015 and 2020 Codes of Audit Practice

We set out a summary of key changes in VFM requirements between the 2015 and 2020 Codes in tabular form on the following pages.

Status of our 2020/21 VFM planning

We have yet to conclude our detailed VFM risk assessment. However, one area of focus will be on the arrangements that the PCC/CC has in place in relation to financial sustainability and governance.

A key area of focus for our risk assessment work is the decision to exit the EQUIP contract in December 2020. We do not yet have sufficient information about the governance and decision making process, and in particular the costs associated with the decision, to scope a risk of significant weakness in the Audit Plan but we will be undertaking a review of the arrangements that led to the decision. We will engage our Forensics Investigation Service team to carry out the review and will update the Joint Audit Committee meeting on the outcome of our Value for Money planning and our planned response to this risk, and any additional identified risks of significant weaknesses in arrangements.

Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Overall requirement For auditors to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	**Overall requirement** No change in requirement.
Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report by exception if the auditor concludes that they are not satisfied that the audited body has put in place proper arrangements to secure value for money in the use of its resources for the relevant period. Where required, the auditor should report their conclusion on the audited body's arrangements having regard to specific reporting criteria.	**Design of work** The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report to the audited body a commentary against the specified reporting criteria on the arrangements the body has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception in their audit report on the financial statements.
Assurance given In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period.	**Assurance given** No change in requirement. Our work remains arrangements based.
Other sources of relevant information Auditors need to consider: ▸ The audited body's governance statement; ▸ Evidence that the audited body's arrangements were in place during the reporting period; ▸ Evidence obtained from the auditor's other work; ▸ The work of inspectorates and other bodies; and ▸ Any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties	**Other sources of relevant information** No change in requirement.

Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Quantum of work Determining how much work to do on arrangements to secure value for money is a matter of auditor judgement.	**Quantum of work** Determining how much work to do on arrangements to secure value for money remains a matter of auditor judgement, but we expect the enhanced risk assessment process and reporting requirements to require more time to be input.
Reporting criteria The NAO's supporting Auditor Guidance Note 3 defines proper arrangements as: 1. *Informed decision making* ▸ Acting in the public interest, through demonstrating and applying the principles and values of sound governance; ▸ Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management; ▸ Reliable and timely financial reporting that supports the delivery of strategic priorities; ▸ Managing risks effectively and maintaining a sound system of internal control; 2. *Sustainable resource deployment* ▸ Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; ▸ Managing and utilising assets effectively to support the delivery of strategic priorities; ▸ Planning, organising and developing the workforce effectively to deliver strategic priorities; 3. *Working with partners and other third parties* ▸ Working with third parties effectively to deliver strategic priorities; ▸ Commissioning services effectively to support the delivery of strategic priorities; ▸ Procuring supplies and services effectively to support the delivery of strategic priorities;	**Reporting criteria** The Code specifies that auditors need to focus on these reporting criteria: 1. *Governance*: how the body ensures that it makes informed decisions and properly manages its risks. Specifically: ▸ How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; ▸ How the body approaches and carries out its annual budget setting process; ▸ How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed; ▸ How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from the audit committee; and ▸ How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff or member behaviour (such as gifts and hospitality or declarations/conflicts of interests). 2. *Financial sustainability*: how the body plans and manages its resources to ensure it can continue to deliver its services. Specifically: ▸ How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them; ▸ How the body plans to bridge its funding gaps and identifies achievable savings; ▸ How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

Value for money – Code requirements

<table>
<tr><th>2015 Code requirement</th><th>2020 Code requirement</th></tr>
<tr><td>Reporting criteria (continued)
See previous page</td><td>Reporting criteria (continued)
▸ How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
▸ how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

3. Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services. Specifically:
▸ How financial and performance information has been used to assess performance to identify areas for improvement;
▸ How the body evaluates the services it provides to assess performance and identify areas for improvement;
▸ How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
▸ Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.</td></tr>
<tr><td>Risk assessment
As part of planning, auditors should consider the risk of reaching an incorrect conclusion in relation to the overall criterion.</td><td>Risk assessment
The auditor will need to gather sufficient evidence and document their evaluation of it in order to enable them to draft their commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.</td></tr>
</table>

Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Reporting The auditor should report to the audit committee the results of their work. The Annual Audit Letter should provide a clear, readily understandable commentary on the results of the auditor's work and highlight any issues that the auditor wishes to draw to the attention of the public.	**Reporting** Auditors are required to report in a commentary each year under the specified reporting criteria and the Code expects that where auditors identify significant weaknesses in arrangements as part of their work, they will raise them promptly with the audit committee. The auditor's annual report should bring together all of the auditor's work over the year. A core element of the report will be the commentary in accordance with the specified reporting criteria. The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

04 Audit materiality

Audit materiality

Materiality

For planning purposes, materiality for 2020/21 has been set out at £3.476 million and £6.059 million for PCC and CC respectively. The Group materiality is set at £6.148 million.

	Group	PCC	CC
Materiality basis	2% of the prior year's gross expenditure on provisions of services	2% of prior year assets	2% of the prior year's gross expenditure on provisions of services
Planning materiality	£6.148 million	£3.476 million	£6.059 million
Performance materiality	£4.611 million	£2.607 million	£4.544 million
Audit differences	£307,435	£173,838	£302,979

Materiality will be reassessed throughout the audit process.

We have provided supplemental information about audit materiality in Appendix C.

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 at 75% of planning materiality, which is consistent with the prior year.

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 Joint 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. We have not determined a lower materiality level for any balance in 20/21.

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)

As outlined in Section 03, 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 and report a commentary on those arrangements.

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 2020/21 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 Joint Audit Committee.

Internal audit:

We will 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 ongoing assessment, where they raise issues that could have an impact on the overall control environment or financial statements.

06 Audit team

Audit team

Audit team structure:

The group audit team is led by Elizabeth Jackson, 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.

Elizabeth Jackson*
Engagement Partner

Justine Thorpe
Audit Manager

Jayanti Gupta
Lead Senior

Elizabeth Jackson is the Audit Engagement Partner will sign the opinions on the financial statements. Justine Thorpe and Jayanti Gupta 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	We will consider any valuation aspects that may require EY valuation specialists to review any material assets, in particular the developing HQ site at Leatherhead, and the underlying assumptions used by the PCC's valuer, Bruton Knowles.
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Hymans Robertson, the actuaries to the Surrey County Council Pension Fund, and the Police Pension Scheme actuary Government Actuarial Department (GAD)
Pension Fund	GT LLP – auditor at Surrey County Council Pension Fund (administrators of the Local Government Pension Scheme of which Surrey Police Group is an admitted member)
Pension Fund	EY Pensions Team 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

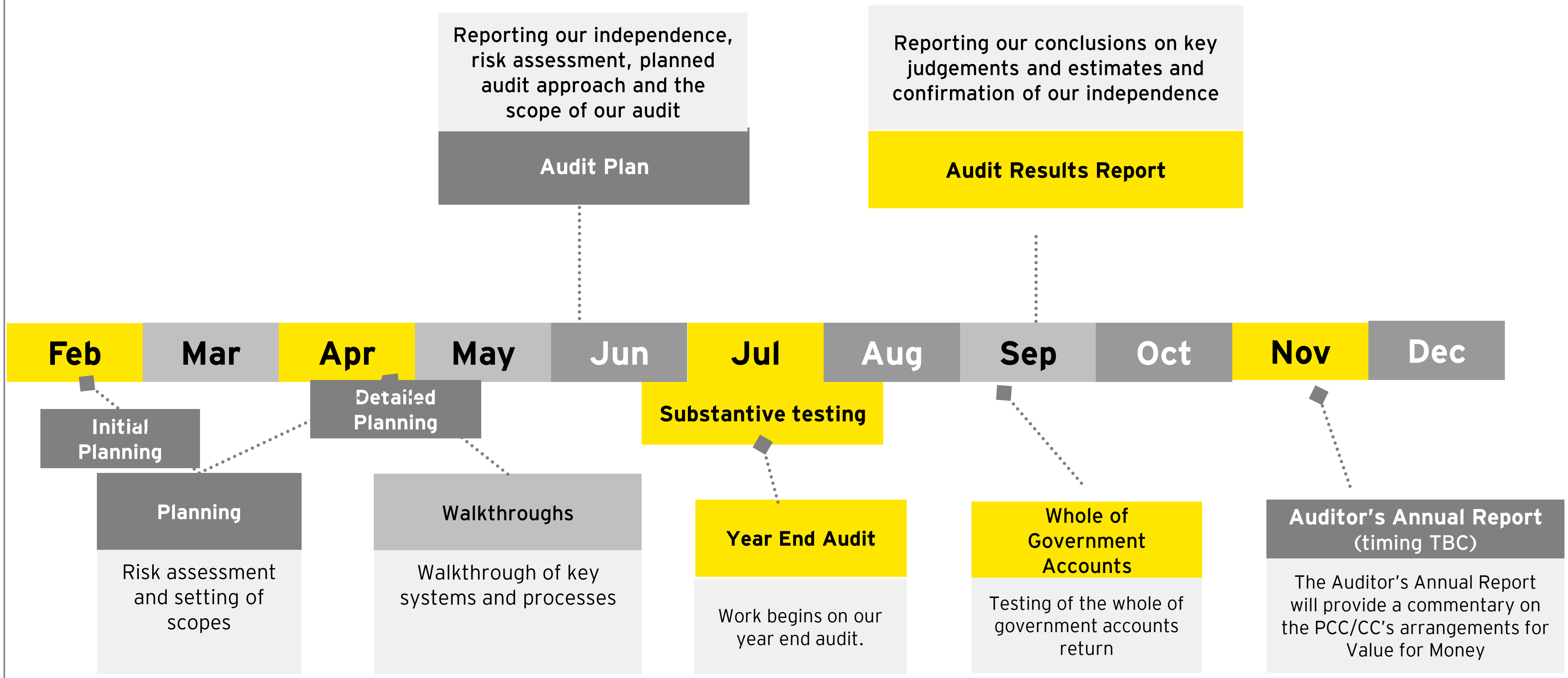
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables which we are currently discussing with officers to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the PCC and CC and we will discuss them with the PCC and CC and senior management 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 December 2019, 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.	▸ 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/additional 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; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ 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 all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; 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 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 Elizabeth Jackson, your audit engagement partner and the audit engagement team have not been

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and 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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. For accounting period ended 31 March 2021 non-audit fees subject to the fee cap cannot exceed 70% of the average audit fees for the past three years. At the time of writing, no non-audit services have been undertaken, therefore 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.

Other communications

EY Transparency Report 2020

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 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

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.

	Proposed fee 2020/21	Final Fee 2019/20
	£'s	£'s
Total Audit Fee – Code work	41,355	41,355
Changes in work required to address professional and regulatory requirements and scope associated with risk	22,445	22,445
Revised Proposed Scale Fee (see Note 1)	**63,800**	**63,800**
Additional work:		
2019/20 Additional Procedures required and as reported within the Annual Audit Letter (subject to review and agreement by PSAA Ltd)	n/a	14,779
2020/21 Additional Procedures required in response to the additional audit risks identified in this Audit Plan in respect of: • Accounting treatment of the EQUIP project expenditure • Valuation of PPE; and • New VFM requirements under the revised NAO Code of Practice (above the old requirements).	tbc	n/a
Total audit	**tbc**	**tbc**
Total other non-audit services	0	0
Total fees	**tbc**	**tbc**

All fees exclude VAT

Note 1

For 2019/20 and for 2020/21 the scale fee has been re-assessed to take into account a number of risk factors. This additional fee has been agreed with management and is now subject to approval by PSAA Ltd.

Appendix B

Required communications with the Joint Audit Committee

We have detailed the communications that we must provide to the Joint Audit Committee.

		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 Plan - 28 July 2021
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 – September 2021

Required communications with the Joint Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you: 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 - September 2021
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 - September 2021
Subsequent events	▸ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit Results Report - September 2021
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 - September 2021
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 - September 2021

Appendix B

Required communications with the Joint Audit Committee (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 Plan – 28 July 2021 Audit Results Report – September 2021
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – September 2021
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 – September 2021
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – September 2021
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 Plan - 28 July 2021 Audit Results Report – September 2021

Required communications with the Joint Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – September 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – September 2021
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 – September 2021

Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Audit Practice.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Joint Audit Committee. The audit does not relieve management or the Joint Audit Committee of their responsibilities.

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 Audit Committee reporting appropriately addresses matters communicated by us to the Joint Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	▸ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ▸ Examining and reporting on the consistency of consolidation schedules or returns with the PCC/CC's audited financial statements for the relevant reporting period
Other procedures	▸ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

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.

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