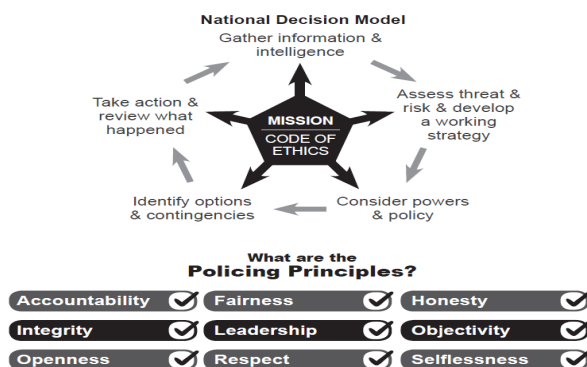




## External Audit Report and Audited Financial Statements for 2020/21

<b>Required for:</b>	Joint Audit Committee (JAC) meeting
<b>Security Classification:</b>	<b>Official</b>
<b>Handling information if required:</b>	n/a
<b>Suitable for publication:</b>	No
<b>Title:</b>	External Audit Report and Audited Financial Statements 2020/21
<b>Version:</b>	1
<b>Purpose:</b>	To present the final audited Financial Statements for 2020/21 (which includes the Annual Governance Statement) for both the Police and Crime Commissioner (PCC) and the Chief Constable (CC) as well as the External auditor's report for consideration by the Audit Committee.
<b>ACPO / Strategic Lead:</b>	Kelvin Menon Treasurer
<b>National Decision Model compliance:</b>	Yes
<b>Date created:</b>	6 <sup>th</sup> October 2021
<b>Date to be reviewed:</b>	

<b>AUTHOR:</b>	
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## Introduction

The auditors are required to report to those charged with Governance, the PCC, the CC, the CFOs and the Monitoring Office (PCC CFO) their opinion on the Financial Statements and Annual Governance Statement by the 30<sup>th</sup> September 2021. However due to delays in finalising a few areas this deadline has been missed, albeit only by a few weeks. Unlike with Corporate accounts there are no penalties for missing this deadline and indeed a number of public bodies have not been able to sign off their 2019/20 financial statements let alone 2020/21. There is a requirement to publish a notice on the PCC and Force websites explaining that the audit is ongoing, and this has been complied with. It is anticipated that subject to any last-minute changes the audit opinion will be signed shortly after this meeting.

Audit work is still being completed in a few areas and consequently the auditor expects that, provided nothing material comes to light, they will be able to sign off in November. It is the intention of EY to give an unqualified audit opinion on the 2020/21 Financial Statements for both the OPCC and the CC. This is after undertaking extensive audit work over the past few months focussing on risk areas identified in their report. The granting of the opinion is subject to the PCC and CC approving the audited financial statements and the receipt of a signed Letter of Representation.

In respect of Value for Money (VFM) the auditor does not intend to report on any matter by exception. Due to changes in National Audit Office requirements the auditor is now required to issue a "VFM Commentary" on any aspects of VFM that they wish to highlight. Normally this would be issued at the same time as the audit opinion however, exceptionally for this year, the auditor has 3 months from the date of the audit opinion to issue this commentary. It is intended that this will be issued in December as part of issuing the Auditor's Annual Report.

Members are reminded that should they wish to discuss matters that would normally be considered Part 2 matters then the meeting will need to move into a closed part 2 session before these matters can be discussed.

## Financial Statements

The PCC and CC are separate corporation sole entities and therefore are required to prepare individual Statement of Accounts. The consolidated position for the Group and the PCC's Statement of Accounts are included within the same document.

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. An initial set of draft accounts were published on both the OPCC and Force website on the 30<sup>th</sup> June 2021 and a further revised set on the 14<sup>th</sup> July 2021.

The 2020/21 PCC and CC Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, based on International Financial Reporting Standards, issued by the Chartered Institute of Public Finance & Accountancy.

Contained within each of the Statement of Accounts are the PCC's and CC's Annual Governance Statement. These statements are intended to provide 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 2020/21. These will be approved and signed at the meeting

### **Changes to Unaudited Draft Accounts issued on 14 July 2021:**

The auditors have set out in their report on page 34 the adjustments that have been made to the financial statements. All material adjustments have been reflected in the accounts. The main material changes related to:

- Impairment adjustment for ERP assets
- Revaluation adjustment of several building based on EY valuation review
- Cashflow statement changes

A reconciliation of the movement between the draft accounts as published and the audited accounts is attached as Appendix 1 to this report. None of these adjustments impact the General fund as they are all reversed out under capital accounting rules. Further amendments may be required as a result of ongoing audit work, but this will be discussed at the meeting.

### **Results for the year**

Under CIPFA and statutory regulations a number of adjustments are required to be made to the accounts which can make it difficult to ascertain the true financial performance. However as can be seen from the table in the narrative statement, which seeks to remove these adjustments, the Group finished £1.6m under budget prior to transfer to reserves. This represents 0.6% of the total net budget. The PCC also delivered an underspend against its net budget of £2m. Staff costs continue to be the biggest cost of the Group, representing over 80% of total expenditure.

In terms of capital expenditure for the year this was £6.7m under budget as some projects particularly in IT and estates span several years. Total assets owned by the Group consisting of buildings, plant, vehicles etc. amounted to £140m which includes property and intangible assets related to the ERP project. The group held £12.4m in cash and investments at the year end and had total external borrowings from the PWLB amounting to £15m. Total usable reserves were £21.6m at the end of the year of which £8m are not earmarked. This equates to just over 3% of the total net budget for the group.

Pensions are a significant cost for the group with contributions of £50m made during the year. There are different schemes in place for Police Officers and Police Staff. The Police Officer scheme is an unfunded scheme and annual contributions are based on an assessment by the Government actuary of the cost of benefits earned in that particular year. Any shortfall (or surplus) in respect of contributions against pensions paid is underwritten by the Government. Under accounting standards, the full actuarial cost of providing Officer Pensions had to be reflected in the balance sheet leading to a creditor of £2.0bn however this is actually the actuarial cost of the future pensions underwritten by Government. Police Staff are members of the Local Government Pension Scheme which is a funded scheme in that it holds investment to provide for future pensions. At the end of the year although there was a reported deficit of £217m reflected in the accounts this was as a result of the valuation method prescribed by CIPFA and it is the actuary's view that the scheme is fully funded.

There is a lot of other information included within the financial statements to further explain the financial performance of the Group for the year.

### **Auditor's Results Report on the Financial Statements**

The Auditors write a report on the financial statements and any findings. This sets out the risks that they have considered, any financial adjustments required, the results of the audit and several other items required by statute.

Ms Elizabeth Jacks, who took over as lead partner for EY this year from Mr Mark Hodgson, will be available to present the report and answer questions at the meeting.

**Letter of Representation**

There is a legal obligation senior officers to disclose any information that the auditor may request, or which could have a bearing on their audit opinion. The letter of representation seeks to set out in writing the verbal representation made to them during their audit. This is standard practice for any audit and the letter is of a standard format and content and is required to be signed by the PCC, CC and two CFOs

Ms Elizabeth Jacks from EY will be available at the meeting to answer any questions Members may have on the Letter of Representation.

**Recommendation:**

It is recommended that the Joint Audit Committee:

1. Receive and comment on the Group Audited Financial Statements for 2020/21 and the Chief Constable Audited Financial Statements for 2020/21.
2. Receive and comment on the External Auditors Audit Result's Report.
3. Receive and comment on the draft Letter of Representation.

It is further recommended that the Police and Crime Commissioner and the Chief Constable:

4. Approve the draft Letter of Representation for 2020/21 included in the auditor's report.
5. Receive the External Auditors Report 2020/21.
6. Approve the Group Audited Financial Statements for 2020/21 (which includes the PCC audited financial statements) and the Chief Constable Audited Financial Statements for 2020/21 subject to no change in the reported audit opinion and no further material adjustments are required. If the audit opinion changes and/or material adjustments to the financial statements are required, then the CC and PCC will consult with the JAC Chair prior to approval of the amended financial statements

**Appendices**

1. Reconciliation of the movement between the draft and final financial statements
2. Audited Group Financial Statements for 2020/21 (which includes the PCC financial statements and annual Governance Statement)
3. Audited Chief Constable Financial Statements for 2020/21 which includes the Annual Governance Statement
4. External Auditor's results report to those charged with Governance for 2020/21 which includes draft audit opinion and Letter of Representation
5. Draft letter of Representation

## 6.1 Adjustments to Group Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)						
GROUP CIES	DRAFT	MOVEMENT	MOVEMENT	MOVEMENT	FINAL	
	2020/21 Net Expenditure	1* Impairment Adjustment	2* PPE Revaluation Adjustments	3* PPE Depreciation Adjustments	2020/21 Net Expenditure	
	£000	£000	£000	£000	£000	
Police Payroll	148,422				148,422	
Police Overtime	6,269				6,269	
Staff Payroll	81,827				81,827	
Staff Overtime	1,908				1,908	
Agency	3,414				3,414	
Training	2,367				2,367	
Other Payroll Costs	2,310				2,310	
Premises	9,481				9,481	
Supplies & Services	32,882				32,882	
Transport	5,758				5,758	
Capital Charges: Depreciation, Amortisation, Impairment (Proxy)	10,521	959		8	11,488	
<b>Gross Operating Expenditure</b>	<b>305,159</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>306,126</b>	
Income	(19,059)				(19,059)	
<b>Net Cost of Policing Services before Intra-Group Funding</b>	<b>286,100</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>287,067</b>	
Intra-group Funding	0				0	
<b>Net Cost of Policing Services</b>	<b>286,100</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>287,067</b>	
Other Operating (Income) or Expenditure	556				556	
Financing and Investment Income and Expenditure	46,258				46,258	
Taxation and Non-Specific Grant Income	(260,342)				(260,342)	
<b>Deficit or (Surplus) on Provision of Services</b>	<b>72,572</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>73,539</b>	
Deficit or (Surplus) on revaluation of current assets	(2,330)		(3,970)		(6,300)	
Re-measurements of the pension liability/(asset)	80,784				80,784	
<b>Other Comprehensive Income and Expenditure</b>	<b>78,454</b>	<b>0</b>	<b>(3,970)</b>	<b>0</b>	<b>74,484</b>	
<b>Total Comprehensive Income and Expenditure</b>	<b>151,026</b>	<b>959</b>	<b>(3,970)</b>	<b>8</b>	<b>148,023</b>	
	0				0	
<b>Explanation for movement between draft and final CIES:</b>						
*1	Intangible Asset impairment adjustment at 50% Equip asset (£1,917,800 reducing to £958,900)					
*2	PPE revaluation adjustments to Police Stations at Guildford, Staines and Woking					
*3	PPE depreciation adjustment					
<b>BALANCE SHEET</b>						
GROUP BALANCE SHEET	DRAFT	MOVEMENT	MOVEMENT	MOVEMENT	FINAL	
	2020/21 Net Expenditure	1* Impairment Adjustment	2* PPE Revaluation Adjustments	3* PPE Depreciation Adjustments	2020/21 Net Expenditure	
	£000	£000	£000	£000	£000	
Property, Plant & Equipment	131,024		3,970	(8)	134,986	
Investment Property	1,203				1,203	
Intangible Assets	4,826	(959)			3,867	
Long Term Debtors	586				586	
<b>Long Term Assets</b>	<b>137,639</b>	<b>(959)</b>	<b>3,970</b>	<b>(8)</b>	<b>140,642</b>	
Assets Held for Sale	0				0	
Inventories	1,096				1,096	
Short Term Debtors	22,424				22,424	
Cash and Cash Equivalents	12,680				12,680	
<b>Current Assets</b>	<b>36,200</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36,200</b>	
Short Term Creditors	(27,544)				(27,544)	
Provisions	(3,040)				(3,040)	
<b>Current Liabilities</b>	<b>(30,584)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(30,584)</b>	
Long Term Borrowing	(14,562)				(14,562)	
Other Long Term Liabilities	(2,176,507)				(2,176,507)	
<b>Current Liabilities</b>	<b>(2,191,069)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,191,069)</b>	
<b>Net Assets</b>	<b>(2,047,814)</b>	<b>(959)</b>	<b>3,970</b>	<b>(8)</b>	<b>(2,044,811)</b>	
<b>Financed by</b>						
Usable Reserves	(21,627)				(21,627)	
Unusable Reserves	2,069,441	959	(3,970)	8	2,066,438	
<b>Total Reserves</b>	<b>2,047,814</b>	<b>959</b>	<b>(3,970)</b>	<b>8</b>	<b>2,044,811</b>	
	0		0	0	0	
	0				0	
<b>Explanation for movement between draft and final BS:</b>						
*1	Intangible Asset impairment adjustment at 50% Equip asset (£1,917,800 reducing to £958,900)					
*2	PPE revaluation adjustments to Police Stations at Guildford, Staines and Woking					
*3	PPE depreciation adjustment					

## 6.1 Adjustments to PCC Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)					
	DRAFT	MOVEMENT	MOVEMENT	MOVEMENT	FINAL
PCC CIES	2019/20 Net Expenditure	1* Impairment Adjustment	2* PPE Revaluation Adjustments	3* PPE Depreciation Adjustments	2019/20 Net Expenditure
	£000	£000	£000	£000	£000
Police Payroll	0				0
Police Overtime	0				0
Staff Payroll	1,089				1,089
Staff Overtime	4				4
Agency	0				0
Training	0				0
Other Payroll Costs	12				12
Premises	46				46
Supplies & Services	3,303				3,303
Transport	2				2
Capital Charges: Depreciation, Amortisation, Impairment (Proxy)	0				0
<b>Gross Operating Expenditure</b>	<b>4,456</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,456</b>
Income	(1,862)				(1,862)
<b>Net Cost of Policing Services before Intra-Group Funding</b>	<b>2,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,594</b>
Intra-group Funding	260,875	959		8	261,842
<b>Net Cost of Policing Services</b>	<b>263,469</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>264,436</b>
Other Operating (Income) or Expenditure	556				556
Financing and Investment Income and Expenditure	361				361
Taxation and Non-Specific Grant Income	(260,342)				(260,342)
<b>Deficit or (Surplus) on Provision of Services</b>	<b>4,044</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>5,011</b>
Deficit or (Surplus) on revaluation of current assets	(2,330)		(3,970)		(6,300)
Re-measurements of the pension liability/(asset)	924				924
<b>Other Comprehensive Income and Expenditure</b>	<b>(1,406)</b>	<b>0</b>	<b>(3,970)</b>	<b>0</b>	<b>(5,376)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>2,638</b>	<b>959</b>	<b>(3,970)</b>	<b>8</b>	<b>(365)</b>
	0				0
*1 Intangible Asset impairment adjustment at 50% Equip asset (£1,917,800 reducing to £958,900)					
*2 PPE revaluation adjustments to Police Stations at Guildford, Staines and Woking					
*3 PPE depreciation adjustment					
<b>PCC</b>					
	DRAFT	MOVEMENT	MOVEMENT	MOVEMENT	FINAL
PCC BALANCE SHEET	2019/20 Net Expenditure	1* Impairment Adjustment	2* PPE Revaluation Adjustments	3* PPE Depreciation Adjustments	2019/20 Net Expenditure
	£000	£000	£000	£000	£000
Property, Plant & Equipment	131,024	0	3,970	(8)	134,986
Investment Property	1,203				1,203
Intangible Assets	4,826	(959)			3,867
Long Term Debtors	586				586
<b>Long Term Assets</b>	<b>137,639</b>	<b>(959)</b>	<b>3,970</b>	<b>(8)</b>	<b>140,642</b>
Assets Held for Sale	0				0
Inventories	1,096				1,096
Short Term Debtors	22,314				22,314
Cash and Cash Equivalents	12,680				12,680
<b>Current Assets</b>	<b>36,090</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36,090</b>
Short Term Creditors	(25,593)				(25,593)
Provisions	(2,930)				(2,930)
<b>Current Liabilities</b>	<b>(28,523)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(28,523)</b>
Long Term Borrowing	(14,562)				(14,562)
Other Long Term Liabilities	(2,461)				(2,461)
<b>Current Liabilities</b>	<b>(17,023)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(17,023)</b>
<b>Net Assets</b>	<b>128,183</b>	<b>(959)</b>	<b>3,970</b>	<b>(8)</b>	<b>131,186</b>
<b>Financed by</b>					
Usable Reserves	(21,627)				(21,627)
Unusable Reserves	(106,556)	959	(3,970)	8	(109,559)
<b>Total Reserves</b>	<b>(128,183)</b>	<b>959</b>	<b>(3,970)</b>	<b>8</b>	<b>(131,186)</b>
	0		0	0	0
	0				0
*1 Intangible Asset impairment adjustment at 50% Equip asset (£1,917,800 reducing to £958,900)					
*2 PPE revaluation adjustments to Police Stations at Guildford, Staines and Woking					
*3 PPE depreciation adjustment					

## Adjustments to Chief Constable Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)					
	DRAFT	MOVEMENT	MOVEMENT	MOVEMENT	FINAL
CC CIES	2019/20 Net Expenditure	1* Impairment Adjustment	2* PPE Revaluation Adjustments	3* PPE Depreciation Adjustments	2019/20 Net Expenditure
	£000	£000	£000	£000	£000
Police Payroll	148,422	0	0	0	148,422
Police Overtime	6,269	0	0	0	6,269
Staff Payroll	80,738	0	0	0	80,738
Staff Overtime	1,904	0	0	0	1,904
Agency	3,414	0	0	0	3,414
Training	2,367	0	0	0	2,367
Other Payroll Costs	2,298	0	0	0	2,298
Premises	9,435	0	0	0	9,435
Supplies & Services	29,579	0	0	0	29,579
Transport	5,756	0	0	0	5,756
Capital Charges: Depreciation, Amortisation, Impairment (Proxy)	10,521	959	0	8	11,488
<b>Gross Operating Expenditure</b>	<b>300,703</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>301,670</b>
Income	(17,197)	0	0	0	(17,197)
<b>Net Cost of Policing Services before Intra-Group Funding</b>	<b>283,506</b>	<b>959</b>	<b>0</b>	<b>8</b>	<b>284,473</b>
Intra-group Funding	(260,875)	(959)	0	(8)	(261,842)
<b>Net Cost of Policing Services</b>	<b>22,631</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,631</b>
Other Operating (Income) or Expenditure	0	0	0	0	0
Financing and Investment Income and Expenditure	45,897	0	0	0	45,897
Taxation and Non-Specific Grant Income	0	0	0	0	0
<b>Deficit or (Surplus) on Provision of Services</b>	<b>68,528</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>68,528</b>
Deficit or (Surplus) on revaluation of current assets	0	0	0	0	0
Re-measurements of the pension liability/(asset)	79,860	0	0	0	79,860
<b>Other Comprehensive Income and Expenditure</b>	<b>79,860</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>79,860</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>148,388</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>148,388</b>
	0				0
*1 Intangible Asset impairment adjustment at 50% Equip asset (£1,917,800 reducing to £958,900)					
*2 PPE revaluation adjustments to Police Stations at Guildford, Staines and Woking					
*3 PPE depreciation adjustment					
CHIEF					
	DRAFT	MOVEMENT	MOVEMENT	MOVEMENT	FINAL
CC BALANCE SHEET	2019/20 Net Expenditure	1* Impairment Adjustment	2* PPE Revaluation Adjustments	3* PPE Depreciation Adjustments	2019/20 Net Expenditure
	£000	£000	£000	£000	£000
Property, Plant & Equipment	0	0	0	0	0
Investment Property	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Long Term Debtors	0	0	0	0	0
<b>Long Term Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Assets Held for Sale	0	0	0	0	0
Inventories	0	0	0	0	0
Short Term Debtors	110	0	0	0	110
Cash and Cash Equivalents	0	0	0	0	0
<b>Current Assets</b>	<b>110</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>110</b>
Short Term Creditors	(1,951)	0	0	0	(1,951)
Provisions	(110)	0	0	0	(110)
<b>Current Liabilities</b>	<b>(2,061)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,061)</b>
Long Term Borrowing	0	0	0	0	0
Other Long Term Liabilities	(2,174,046)	0	0	0	(2,174,046)
<b>Current Liabilities</b>	<b>(2,174,046)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,174,046)</b>
<b>Net Assets</b>	<b>(2,175,997)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,175,997)</b>
<b>Financed by</b>					
Usable Reserves	0	0	0	0	0
Unusable Reserves	2,175,997	0	0	0	2,175,997
<b>Total Reserves</b>	<b>2,175,997</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,175,997</b>
	0				0
	0				0
*1 Intangible Asset impairment adjustment at 50% Equip asset (£1,917,800 reducing to £958,900)					
*2 PPE revaluation adjustments to Police Stations at Guildford, Staines and Woking					
*3 PPE depreciation adjustment					