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

Audit Results Report

Year ended 31 March 2021

20 October 2021

Building a better working world

Private and Confidential

20 October 2021

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

Dear Lisa and Gavin

2021 Audit Results Report

We are pleased to attach our audit results report, summarising the status of our audit of the Police and Crime Commissioner for Surrey Group (the PCC and CC) for the forthcoming meeting of the Joint Audit Committee (JAC). We will update JAC at its meeting scheduled for 20 October 2021 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 20/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the PCC and CC's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Joint Audit Committee (JAC), other members of the PCC and CC, and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the JAC meeting on 20 October 2021.

Yours faithfully

E.Jackson.

Elizabeth Jackson
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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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 and further guidance (updated July 2021)" 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 Executive Summary

Executive Summary

Scope update

In our Audit Plan presented at the 28 July 2021 JAC meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality

In our Audit Plan, we communicated that our audit procedures would be performed using a materiality of £6.148 million for the PCC Group; £3.476 million for the PCC Single Entity and £6.059 million for the CC Single Entity. Performance materiality at 75 % of overall materiality and thresholds for reporting misstatements at 5% of performance materiality. These figures were determined using the draft consolidated accounts and therefore these were appropriate for the accounts audits.

We have also reconsidered our risk assessment and confirm that there are no changes to the risks identified in the Audit Plan.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the PCC/CC's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Executive Summary

Status of the audit

Our audit work in respect of the PCC's and the CC's opinions is ongoing. The following are the main items relating to the completion of our audit procedures and were outstanding at 15th October 2021 (the date of drafting this report):

- Land and buildings valuation: We held a meeting with your valuer on 30 September to discuss issues raised by our expert, EY Real Estate. We are awaiting finalisation of the EY Real Estate report, following a revision of the valuation of a sample of assets by your valuer
- IAS 19 assurances: We are working with our EY actuarial colleagues regarding the Police Pension Fund liability valuation and LG Pension Fund disclosures
- Cashflow statement: We were sent revised Cashflow Statements for the PCC and the CC on 12 October which we need to review
- Fieldwork w/c 18th and 25th October covering all outstanding testing:
    - PPE reclassifications from AUC testing
    - Journals testing
    - Income and expenditure sampling
    - Income cut off testing
    - Payroll testing queries
    - Reserves
    - Related party transactions
    - Going concern
    - Officers remuneration
    - Unrecorded liabilities up to the date of signing the opinion
    - Annual Governance Statement
- Quality review from Manager and Associate Partner of audit working papers
- Review of final version of accounts and narrative report
- Subsequent events review
- Receipt of signed management representation letter
- Signed AGS, narrative report and financial statements
- Whole of Government Accounts: We have yet to receive the NAO instructions on this for 2020/21. This is not expected until December 2021.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 03.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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 their use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PCC and CC a commentary against specified reporting criteria (see below) on the arrangements the PCC and the CC 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 CC plans and manages its resources to ensure it can continue to deliver its services;*
- ***Governance:*** *How the PCC and CC ensures that it makes informed decisions and properly manages its risks; and*
- **Improving economy, efficiency and effectiveness:** *How the PCC and CC uses information about its costs and performance to improve the way it manages and delivers its services.*

Status of the audit – Value for Money

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We have included the findings from our work on the risk of significant weakness we identified in section 05.

We plan to issue the VFM commentary within three months after the issuing the audit report, in line with the extension provided by the NAO for 2020/21, within our Auditor's Annual Report.

Executive Summary

Audit differences

The PCC and the CC's first sets of draft statements were presented for audit on 21st June 2021 in accordance with the agreed timetable. However, these accounts contained a material number of issues that were not resolved by management before providing us with the accounts for audit. Time was spent in trying to reconcile the accounts to a General Ledger download rather than the extended trial balance. This confusion was due to communication limited by remote working due to COVID restrictions. The finance team were still processing journals after the data was sent to us for audit which meant that work undertaken on this version of the accounts had to be reperformed and/or reconciled for a second time which has significantly delayed the completion of our audit and duplicated work on a number of tests. This will lead to an increase in the audit fee.

During the fourth week of the audit a second set of financial statements was produced, on 14th July, for presentation to the Joint Audit Committee at its meeting of 28th July 2021. We highlighted a large number of changes greater than £307,000 for the PCC and Group's financial statements, £303,000 for the CC's financial statements and £174,000 for the PCC's financial statements which were corrected by management.

A number of adjustments significantly impacted on the PCC's and the CC's primary statements, as well as a number of disclosure notes, notably:

- *Intangible IT assets*: Impairment of £958,900 for the intangible IT assets capitalised following the cessation of the EQUIP project
- *Valuation of PPE assets*: There has been an understatement of £4.02 million following challenge from our EY Real Estate specialists. The values of the Guildford (+£1.55 million), Staines (+ £1.525 million) and Woking (+£945k) police stations have increased in total by £4.02 million
- *Cashflow Statement:* Officers produced a third version of this primary statement and notes on 12th October. There have been significant changes to version three and we need to reperform all the work we previously completed on the first two versions as we found that version 2 was still not internally consistent with other areas of the accounts.
- *Prior period adjustment:* We agreed a prior period adjustment totalling £13.85 million to the gross opening balance of Vehicle, Plant and Equipment (VPE) to Note 11 for "fully depreciated assets written out of the book as no longer held".

See section 04 for further details of the adjustments and disclosure amendments identified. We have also reported the issues with the production of the financial statements as an internal control weakness in section 07.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the PCC and CC. Our work is in progress.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The NAO are currently reviewing the Data Collection Tool and it is expected that this will be available in December 2021. We will audit this once your officers have the updated software and have been able to submit their entries.

We have no other matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements of the PCC and the CC. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potentia l risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Audit findings and conclusions

- ***Significant risk - Misstatements due to fraud or error – Management override of controls***
  We have nearly completed our work in this area with the main outstanding item being our work over the valuation of assets estimate.
- **Significant risk - Misstatements due to fraud or error - Inappropriate capitalisation of revenue expenditure**
  We have not identified any material misstatements arising from fraud in revenue and expenditure recognition and the inappropriate capitalisation of revenue.
- ***Significant risk - Misstatements due to fraud or error - Inappropriate capitalisation of revenue expenditure in relation to the EQUIP project.*** As a result of our challenge, the Force has chosen to impair the EQUIP assets by 50% of their cost value (£958,900) to recognise the uncertainty over their potential use and whether they will bring future economic value to the Force.
- ***Significant risk - Valuation of Land & Buildings in Property, Plant and Equipment (PPE) under fair value - Estimated-Use-Value (EUV).*** We are working with our EY Real Estate colleagues to be able to conclude our work in this area. Initial findings have resulted in an adjusted audit difference of £4.02 million on police stations. Work is ongoing on the Mount Browne and Leatherhead sites.
- ***Area of audit focus - Valuation of Land and Buildings in PPE under Depreciated Replacement Cost (DRC)***
  We are satisfied that management has valued the assets held at DRC on a reasonable basis. This work is currently in review.
- ***Area of audit focus - Valuation of the Police Pension Scheme Liability***
  We are working with our EY actuarial colleagues to be able to conclude our work in this area. Following the changes to ISA 540, we identified a gap in our assurance for the information used by the actuary in calculating the IAS 19 liability across all our audits so have had to complete additional testing to meet the ISA requirements.
- ***Area of audit focus – Cashflow Statement preparation***
  There have been significant revisions to the Cashflow Statement for the PCC and Group produced on 12th October. Our audit found that version 2 was not internally consistent with other areas of the accounts.
- ***Area of audit focus - Valuation of Pension Liabilities (Local Government Pension Scheme)***
  We are working with our EY actuarial colleagues to be able to conclude our work in this area. Following the changes to ISA 540, we identified a gap in our assurance for the information used by the actuary in calculating the IAS 19 liability across all our audits so have had to complete additional testing to meet the ISA requirements.
- ***Area of audit focus - Going Concern Compliance with ISA 570***
  Our work is ongoing in this area and we hope to report that we are satisfied that the PCC and the CC have carried out a reasonable assessment and made appropriate disclosure in their revised accounts.

Executive Summary

Areas of audit focus (continued)

Area of audit focus – Property, Plant and Equipment (PPE) disposals
We are satisfied that we have been able to conclude our work in this area, following an amendment to the disclosure in Note 11.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issues
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Joint Audit Committee or Management.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of the key processes and the controls which are in place to detect or prevent error. Through this work, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

However, as reported in section 04, there have been significant changes to the PCC and the CC's financial statements. The quality of the draft financial statements and supporting working papers have affected the efficiency of the audit process which is why the audit is still ongoing four months after it began. With a departmental restructure leading to changes in roles and an old finance system which needs to be replaced, and will be as part of the ERP solution, officers found it difficult to effectively prepare the PCC's and the CC's 2020/21 financial statements and good quality working papers this year for the early audit start date.

In addition, our audit testing identified that an intangible asset had been capitalised without sufficient evidence to value the asset.

The two weaknesses identified are:

- Accounts production and working papers
- Capitalisation of intangible assets

We provide further information of these weaknesses in section 07.

Independence

We can confirm that we remain independent of the PCC and CC and include an update in Section 09.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions.

We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:

- IAS 19 disclosures;
- Valuation of the Police Pension Fund liability; and
- Valuation of land and buildings in Property, Plant and Equipment.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

Our audit work completed to date has found no evidence that management had attempted to override internal controls.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the PCC and the Force's normal course of business.

We have not yet completed our work on the valuation of assets and will update the Joint Audit Committee on progress is this area verbally.

This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

Significant risk

Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Reviewing the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.
- Reviewing and discussing with management and challenging any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:
    - IAS 19 disclosures;
    - Valuation of the Police Pension Fund liability; and
    - Valuation of land and buildings in Property, Plant and Equipment.

- Reviewing the transactions in the financial statements for evidence of any significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risks related to the capitalisation of revenue expenditure and, capitalisation of revenue expenditure in relation to the EQUIP project and a separate significant risk over the valuation of land and buildings valued under EUV.

Significant risk

Risk of misstatements due to fraud or error – specifically in inappropriate capitalisation of revenue expenditure

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 TVP, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times our materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What judgements are we focused on?

We focus on whether expenditure is properly capitalised in its initial recognition, or whether subsequent expenditure on an asset enhances the asset or extends its useful life.

What did we do?

We have:

- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16;
- We extended our testing of items capitalised in the year by lowering our testing threshold. We will also reviewed a larger random sample of capital additions below our testing threshold.
- Journal testing – we used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries more generally for evidence of management bias and evaluated them for business rationale.

What are our conclusions?

Our testing is complete and has not identified any material misstatements from inappropriate capitalisation of revenue expenditure.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

Significant risk

Risk of misstatements due to fraud or error – specifically in inappropriate capitalisation of revenue expenditure in the EQUIP project

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 TVP, 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 aborted project spend from capital to create an Intangible Asset.

What judgements are we focused on?

We focus on whether the relevant intangible expenditure is properly capitalised in its initial recognition.

What did we do?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- Reviewed the judgements made by management in determining the accounting treatment of the expenditure in relation to the EQUIP project to ensure it is in line with the expenditure recognition policy;
- Sample tested 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
- Used our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our conclusions?

We identified that the total exit costs of the EQUIP project were not material to the Force. The Force had capitalised their share of the exit costs as intangible assets in line with IAS 38, but were not able to attribute an individual value to each asset obtained on cessation of the project.

As a result of our challenge, the Force has chosen to impair the assets by 50% of their cost value (£958,900) to recognise the uncertainty over their potential use and whether they will bring future economic value to the Force. A briefing paper setting out management's judgement to support the impairment was reviewed. We have concluded the accounts are materially fairly stated for the impairment. Management should ensure that they continue to review what assets can be used in the future as part of the ERP solution decision and further impair the asset as needed.

This has been included as an adjusted audit difference in section 4.

Significant risk

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

What is the risk?

The value of land and buildings in PPE under EUV 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 judgements are we focused on?

We focussed on whether the appropriate assumptions had been used in calculating the valuation of PPE using our EY real estate specialists

What did we do?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- Considered 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;
- Challenged the assumptions used by the valuer by reference to external evidence and through engaging our EY Real Estate valuation specialist team – for example, significant or unusual movements in valuation, or investments in areas of the economy under stress such as retail;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Instructed our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Force's Valuer; Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

This review is not yet complete, however initial findings have found that the value of the:

- Main HQ Mount Browne is £20.9m using the EUV methodology; however the valuers are debating whether the DRC methodology is more appropriate in which case the value is higher by £805k at £21.7 million;
- Guildford, Staines and Woking police stations have increased in total by £4.02 million.
- Leatherhead HQ site is still being determined at the time of writing this report.

We will provide an update to the Committee at the meeting on 20 October 2021.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus?	What did we do?	What are our conclusions?
Valuation of Land and Buildings - DRC The value of land & buildings in PPE under DRC also represent significant balances in the PCC and Group's 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. At 31 March 2021, the value of land & buildings in PPE under DRC was £6.6m which is the value of the Salford Custody suite.	We have: ▸ considered the work performed by the PCC/CC's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ▸ considered changes to useful economic lives as a result of the most recent valuation; and ▸ confirmed accounting entries have been correctly processed in the financial statements.	We are satisfied that management has valued the assets held at DRC on a reasonable basis.

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
Police Pension Scheme Liability The Local Authority Accounting Code of Practice and IAS19 require the Group and CC to make extensive disclosures within their financial statements regarding their membership of the Police Pension Scheme administered and underwritten by HM Government. The Group and CC Pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheets of the Group and CC. At 31 March 2021 this totalled £2,827 million. Accounting for the 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. Following a material audit difference made in 2019/20 accounts as a result of the assumptions used by the Police PF actuary for the McCloud assumptions, and the subsequent appointment of a new actuary for 2020/21, we have increased the level of risk from inherent to significant for this financial year.	As set out in our Audit Plan we confirm that we have performed the following procedures: ▸ Considered the work performed by the Police Pension Fund actuary (Government Actuarial Department), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Assessed the work of the actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors; ▸ Engaged our EY actuarial team to review assumptions made by the actuary; ▸ Reviewed and tested the accounting entries and disclosures made within the financial statements in relation to IAS19; and ▸ Gained assurance over the data that has been provided to the actuary.	We identified that the assumptions used by the Police Pension Fund actuary were reasonable, with the exception of the CPI assumption. Both PWC, the consulting actuary, and our EY actuarial team concluded that the CPI assumption used by the actuary was not supportable. However, due to flexibility in the discount rate used by the actuary, we concluded that the liability for the Police Pension Fund as set out in the financial statements was fairly stated overall. We are working with our EY actuarial colleagues to be able to conclude on the model used by the actuary to generate the disclosures to obtain assurance for the new requirements of ISA 540 accounting estimates.

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
Preparation of the 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.	We reviewed the preparation of the Cashflow Statement and verified the accuracy of the disclosures made in relation to the other areas of the accounts.	There have been significant revisions to Cashflow Statement for the PCC and Group, produced on 12th October, which we need to review as our audit found that version 2 was not internally consistent with other areas of the accounts. We will verbally update you on the outcome of our work at the Joint Audit Committee on 20th October 2021.
LGPS Pension Liability Valuation 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 carried out a range of procedures including: ‣ liaising 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 received their assurance in late September 2021. ‣ assessing 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 ‣ reviewing and testing the accounting entries and disclosures made within the Group and the CC financial statements in relation to IAS19, including any updates to the value of year end assets.	We are currently undertaking this work. We will verbally update you on the outcome of our work at the Joint Audit Committee on 20th October 2021.

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
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 Force 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.	We have met the requirements of the revised auditing standard on going concern (ISA 570) and considered the adequacy of the PCC and CC's going concern assessment and its disclosure in the accounts by: ▸ Challenging management's identification of events or conditions impacting going concern. ▸ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). ▸ Reviewing the cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. ▸ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. ▸ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.	We discussed the detailed implications of the revised auditing standard with finance staff in order to provide management with information regarding the adequacy and sufficiency of the proposed disclosures in relation to going concern. However, the PCC and CC draft financial statements did not include the necessary going concern disclosure. We received this on 13th September 2021. Surrey Police have included an additional detailed disclosure note within the revised financial statements in respect of going concern. We are currently reviewing management's going concern assessments for the PCC and the CC. We will verbally update you on the outcome of our work at the Joint Audit Committee on 20th October 2021.

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
Property, Plant and Equipment (PPE) Disposals On receipt of the draft 20/21 accounts we identified that Note 11 - PPE showed in-year disposals of £17.87 million; of this, some £15.82 million was for equipment assets 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 carried out a range of procedures including: ▸ reviewing management's exercise to identify assets with a nil Net Book Value (NBV) and resulting disposal in the accounts, including which year they should have been disposed; and ▸ sample tested 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.	We found that assets with a nil Net Book Value were still held on the PCC's Fixed Asset Register at 1 April 2020 despite not being in use. We reviewed the data cleansing exercise and were able to agree that £13.85 million of IT equipment assets had been disposed of before the 2020/21 financial year. We therefore agreed a Prior Year Adjustment of £13.85 million to the opening balance of Vehicle, Plant and Equipment (VPE) to Note 11 for "fully depreciated assets written out of the book as no longer held".

03 Audit Report

Draft audit report for the Police and Crime Commissioner

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR SURREY

Opinion

We have audited the financial statements and the police' pension fund financial statements of the Police and Crime Commissioner for Surrey for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Police and Crime Commissioner for Surrey and Group Comprehensive Income and Expenditure Statement;
- Police and Crime Commissioner for Surrey and Group Movement in Reserves Statement;
- Police and Crime Commissioner for Surrey and Group Balance Sheet;
- Police and Crime Commissioner for Surrey and Group Cash Flow Statement and related notes;
- The related notes 1 to 40; and
- Police and Crime Commissioner for Surrey Police Pension Fund Account Statements and associated notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Surrey and Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Police and Crime Commissioner for Surrey and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Police and Crime Commissioner's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Police and Crime Commissioner's ability to continue as a going concern.

Draft audit report for the Police and Crime Commissioner (continued)

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the entity;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 55, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Police and Crime Commissioner and Group financial statements and the police pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Police and Crime Commissioner either intends to cease operations, or have no realistic alternative but to do so.

The Police and Crime Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Draft audit report for the Police and Crime Commissioner (continued)

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Police and Crime Commissioner and determined that the most significant are:
  - Local Government Act 1972,
  - Local Government Act 2003,
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
  - The Local Audit and Accountability Act 2014,
  - The Accounts and Audit Regulations 2015 **(extended with Accounts and Audit (Coronavirus) (Amendment) Regulations 2020),**
  - The Police Reform and Social Responsibility Act 2011,
  - Anti-social behaviour, Police and Crime Act 2014,
  - Police Pensions scheme regulations 1987,
  - Police Pensions regulations 2006; and
  - Police Pensions regulations 2015.

  In addition, the Police and Crime Commissioner has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.
- We understood how the Police and Crime Commissioner is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Police and Crime Commissioner's Joint Audit Committee minutes, through enquiry of employees to confirm the Police and Crime Commissioner's policies, and through the inspection other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the Police and Crime Commissioner's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified our fraud risks to be manipulation of reported financial performance through improper recognition of revenue, (inappropriate capitalisation of revenue expenditure and specifically inappropriate capitalisation of revenue expenditure in relation to the EQUIP project) and management override of controls.

Draft audit report for the Police and Crime Commissioner (continued)

Our opinion on the financial statements

- To address our fraud risk of inappropriate capitalisation of revenue expenditure and specifically inappropriate capitalisation of revenue expenditure in relation to the EQUIP project, we tested the Police and Crime Commissioner's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. In addition, we assessed whether the judgements made in making accounting estimates were indicative of a potential bias and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Police and Crime Commissioner had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Police and Crime Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Draft audit report for the Police and Crime Commissioner (continued)

Our opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

We cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Police and Crime Commissioner's value for money arrangements for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements.

We will report the outcome of our work on the Police and Crime Commissioner's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the Police and Crime Commissioner for Sussex, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for Sussex, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Jackson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
DATE

Draft audit report for the Chief Constable

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE OF SURREY

Opinion

We have audited the financial statements and the police' pension fund financial statements of the Chief Constable of Surrey for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Chief Constable of Surrey Comprehensive Income and Expenditure Statement;
- Chief Constable of Surrey Movement in Reserves Statement;
- Chief Constable of Surrey Balance Sheet;
- Chief Constable of Surrey Cash Flow Statement and related notes ;
- The related notes 1 to 23; and
- Chief Constable of Police Pension Fund Account Statements and associated notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable of Surrey as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Chief Constable of Surrey in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Chief Constable's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Chief Constable's ability to continue as a going concern.

Draft audit report for the Chief Constable (continued)

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the Statement of Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the entity;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects

Responsibilities of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 25, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Chief Constable's financial statements and the police pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Chief Constable either intends to cease operations, or have no realistic alternative but to do so.

The Chief Constable is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Draft audit report for the Chief Constable (continued)

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Chief Constable and determined that the most significant are:
  - Local Government Act 1972,
  - Local Government Act 2003,
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
  - The Local Audit and Accountability Act 2014,
  - The Accounts and Audit Regulations 2015 **(extended with Accounts and Audit (Coronavirus) (Amendment) Regulations 2020),**
  - The Police Reform and Social Responsibility Act 2011,
  - Anti-social behaviour, Police and Crime Act 2014,
  - Police Pensions scheme regulations 1987,
  - Police Pensions regulations 2006; and
  - Police Pensions regulations 2015.

  In addition, the Chief Constable has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

- We understood how the Chief Constable is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Chief Constable's Joint Audit Committee minutes, through enquiry of employees to confirm the Chief Constable's policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the Chief Constable's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified our fraud risk to be management override of controls.

Draft audit report for the Chief Constable (continued)

Our opinion on the financial statements

- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. In addition, we assessed whether the judgements made in making accounting estimates were indicative of a potential bias and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Chief Constable had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Draft audit report for the Chief Constable (continued)

Our opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

We cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Chief Constable's value for money arrangements for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements.

We will report the outcome of our work on the Chief Constable's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the Chief Constable of Sussex, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable of Sussex, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Jackson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton

DATE

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

Adjusted audit differences

We highlight the following misstatements greater than £307,000 for the PCC and Group's financial statements, £303,000 for the CC's financial statements and £174,000 for the PCC's financial statements which have been corrected by management that were identified during the course of our audit. They have the net impact of increasing net expenditure for the year by £958,900.

The adjusted audit differences are:

- *Intangible IT assets*: Impairment of £958,900 for the intangible IT assets capitalised following the cessation of the EQUIP project.
- *Valuation of PPE assets*: There has been an understatement of £4.02 million following challenge from our EY Real Estate specialists. The values of the Guildford (+£1.55 million), Staines (+ £1.525 million) and Woking (+£945k) police stations have increased in total by £4.02 million.
- *Cashflow Statement:* Officers produced a third version of this primary statement and notes on 12th October. There have been significant changes to version 3 for us to check as we found that version 2 was not internally consistent with other areas of the accounts.

Disclosure adjustments

- *Note 2 - Going Concern*: The PCC and CC draft financial statements did not include the necessary going concern disclosures. Surrey Police have included an additional detailed disclosure note within the revised financial statements in respect of going concern.
- *Note 6 – Adjustments between accounting basis and funding basis under regulations:* The balance for capital expenditure financed from revenue of £7.631 million does not agree to Note 10 which states that the balance for this should be £8.847 million.
- *Note 8 – Taxation and Non-specific grant income:* The council tax income was understated by £2.468 million as not all of the council tax returns had been taken into account.
- *Note 11 – Property, Plant and Equipment*: we agreed a Prior Year Adjustment of £13.85 million to the opening balance of Vehicle, Plant and Equipment (VPE) to reflect the "fully depreciated assets written out of the book as no longer held" which were disposed of prior to the start of the 2020/21 financial year.
- *Note 13 – Debtors*: Council tax debtors should be recorded as £2.311million rather than the £2.553 million in the first draft of the accounts.
- *Note 17 - Creditors*: Council tax creditors have been revised to £4.387 million from the £2.143million in the first draft of the accounts.
- There are a number of minor disclosures that also needed amending. Minor adjustments have been identified and actioned in disclosures relating to the Physical Assets held in Note 11, the Capital Adjustment Account, and exit packages.

As our work is ongoing, at the time of writing this report, there may be other adjusted audit differences.

Audit Differences (continued)

Unadjusted audit differences

At the time of writing, we have identified no unadjusted audit differences, that are above our reporting threshold but below materiality.

Changes to the first draft accounts

The PCC and the CC's first sets of draft statements were presented for audit on 21st June 2021. During the fourth week of the audit a second set of financial statements was produced, on 14th July, for presentation to the Joint Audit Committee at its meeting of 28th July 2021. We highlight the following changes greater than £307,000 for the PCC and Group's financial statements, £303,000 for the CC's financial statements and £174,000 for the PCC's financial statements which were corrected by management.

The following adjustments significantly impacted on the PCC's and the CC's primary statements as well as a number of disclosure notes:

- *Change in treatment of COVID -19 PPE Grant* – the treatment of this £2.275 million grant was incorrectly recorded through the income and expenditure account when as a grant, distributed on an agency basis, it should have been recorded through the balance sheet.
- *Reclassification of three Covid grants to income* - this £1.044k of funding was used by Surrey Police rather than being distributed on an agency basis to other bodies.
- *Precept movement on the Collection Fund* of £2.486 million, as local authorities were late with their notification, with a £242k reduction to Council tax debtors balance and a £2,244k reduction to the council tax creditors balance.
- *Movement on short-term accumulated absences reserve* of £897k.
- General Fund reallocation to three earmarked reserves to match the Reserves Strategy of £1.637 million.
- IAS pensions movement of £147.491 million through the balance sheet long-term liability and the unusable pension reserve.
- Changes to the PCC Preface and the Narrative Statement.

The material changes to the PCC and the CC's financial statements have affected the efficiency of the audit process which is why the audit is still ongoing four months after it began. With a departmental restructure and an old finance system which needs to be replaced, and will be as part of the ERP solution, officers have found it difficult to effectively prepare the PCC's and the CC's 2020/21 financial statements and supporting working papers this year for the early start date of the audit.

05 Value for Money

Value for money

The PCC and CC's responsibilities for value for money (VFM)

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

As part of the material published with its financial statements, the PCC and CC are required to bring together commentary on their governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the PCC and CC tailor the content to reflect their own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

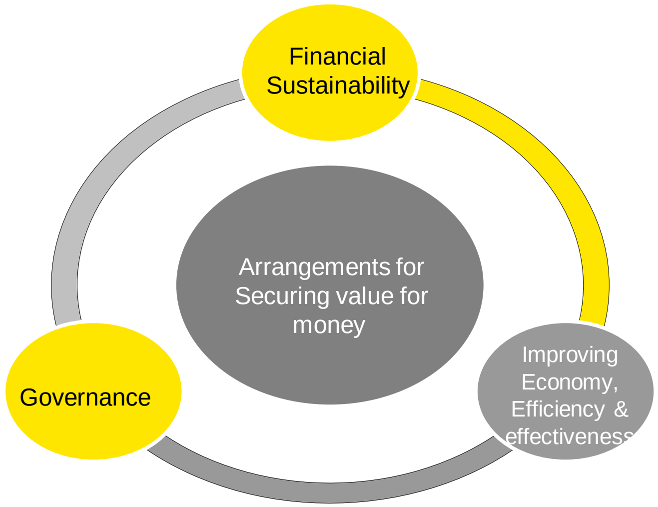
Risk assessment

We have completed our risk assessment of the PCC and CC's value for money arrangements. Our audit plan stated that we reviewed progress on, the following, as part of our VFM risk assessment:

o post EQUIP solution for Enterprise Resource Planning; and

o Building the Futures project with the development of a new headquarters and the move to more agile working.

Our risk assessment identified **one risk of significant weakness** in the PCC and CC's VFM arrangements, in relation to the exit from the EQUIP programme and the post EQUIP solution for Enterprise Resource Planning.



Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We include below the findings from our work on the risk of significant weakness in the PCC and CC's VFM arrangements.

We plan to issue the VFM commentary by the end of December as part of issuing the Auditor's Annual Report.

Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
Governance arrangements over the cessation of the EQUIP project This was a significant joint project with Thames Valley Police and Sussex Police aiming to modernise key financial systems. This multi-million pound IT restructure has been subject to a significant number of inputs and assumptions regarding delivery. Last year, we undertook a detailed review of the arrangements that Surrey Police had in place to manage the risks associated with the EQUIP project. In December 2020, the Force took the decision, in conjunction with Thames Valley Police and Sussex Police, to cease the contract. This has meant the Force is continuing with its old systems and Surrey Police will need to update these systems in the short term. We have identified a risk of a significant weakness in the governance arrangements at the Force over the cessation of the EQUIP project and whether they took appropriate advice and provided Those Charged With Governance with robust information to make a considered decision.	Governance	We reviewed the minutes of the Equip Strategic Board and Joint Audit Committee meetings. We reviewed the legal advice and the papers taken to the Chief Constables and Police and Crime Commissioners of the three Forces regarding the EQUIP project. We consider that the PCC and the Force received appropriate legal and consultancy advice to enable them to make a decision to exit the project in December 2020. We concluded that the PCC and the Force communicated progress appropriately to the JAC and provided sufficient information to the Chief Constables and Police and Crime Commissioners to enable them to make informed decisions regarding the cessation of the EQUIP project. Going forward the PCC and the Force need to continue to mitigate the risks around its systems and ensure the timeline for considering the ERP solution options and the decision making process is met. Although we agree that the decision needs to be supported by evidence and fully considered, there is a risk to the functionality of the old systems, in particular the financial ledger for the accounts preparation and audit process in 21/22 if the proposed timeline slips in to the 22/23 financial year. **Recommendation:** The Force should ensure that a decision is made about the ERP solution before the end of the 21/22 financial year to ensure the weaknesses in the old systems do not impact on the 22/23 financial year.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the PCC and CC Statement of Accounts 2020/21 with the audited financial statements.

- *Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.*

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- *We have reviewed the PCC and the CC's Annual Governance Statements and can confirm they are consistent with other information from our audit of the financial statements and we have no other matters to report.*

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently waiting to start work in this area once the NAO instructions have been released and will report any matters arising to the Joint Audit Committee.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the PCC and CC's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have nothing to comment in respect of these.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However, we have identified two deficiencies, to date, where internal control should be improved.

We also considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We not have any significant concerns to report.

DEFICIENCY: Accounts production and working papers

We received two versions of the accounts for audit (21st June and 14th July 2021). The PCC and the CC's first sets of draft statements were presented for audit on 21st June 2021 in accordance with the agreed timetable. However, these accounts contained a significant number of issues that were not resolved by management before providing us with the accounts for audit. Time was spent in trying to reconcile the accounts to a General Ledger download rather than the extended trial balance. This confusion was due to communication limited by remote working due to COVID restrictions. The finance team were still processing journals after the data was sent to us for audit which meant that work undertaken on this version of the accounts had to be reperformed and/or reconciled for a second time. This has significantly delayed the completion of our audit and duplicated work on a number of tests.

In addition, the accounts production process in May 2021 followed a finance department restructure which meant for some staff this was the first time they had prepared their particular area of the accounts. The finance team restructure has strengthened the capacity in the team and benefits will be seen in future years but for the 20/21 audit, we had delays in obtaining explanations for queries and supporting evidence. For the 21/22 accounts production process, working papers need to be improved so they show a clear audit trail between the GL and accounts. We have agreed with management that we need to ensure clear communications are maintained before and during the audit so all members of the finance team understand why audit is requesting the information.

Recommendation: A project plan needs to be put in place to deliver one set of financial statements, good quality working papers and have the appropriate capacity to respond to audit queries to agreed timelines.

Recommendation: The accounts presented for audit should be fully reconciled to the GL download provided to audit to confirm completeness of the GL and journals should not be processed after this point unless agreed in advance with audit for preparing the final version of the accounts.

DEFICIENCY: Capitalisation of intangible assets

See next page for information on the deficiency.

Assessment of Control Environment (Continued)

Area	Capitalisation of intangible assets
Observation	Capitalisation of the intangible assets – our testing of intangible asset additions identified one asset where the Force had not sufficiently considered whether an impairment should be applied.
Impact	The value of intangible assets in the financial statements could be overstated.
Management comment	Surrey Police believed the Equip intangible asset item met the definition of an intangible asset in accordance with IAS38 at the time of purchase and consistent instructions have been given since to maximise use of that asset wherever possible. In light of changes in approach to developing related systems and potential for technical obsolescence for some elements of that asset, the group considered impairment of that asset by 50% as a prudent measure of any impact on future economic benefits expected from that asset. The capital accountant is also putting in tighter review measures for all new capital assets to ensure they meet the relevant capitalisation criteria.

Area	Accounts production and supporting working papers
Observation	See description on previous page
Impact	The PCC and CC financial statements prepared and submitted for audit are not high quality leading to an increased audit fee.
Management comment	Surrey Police...

08 Data Analytics

Data Analytics - Journal Entry Testing

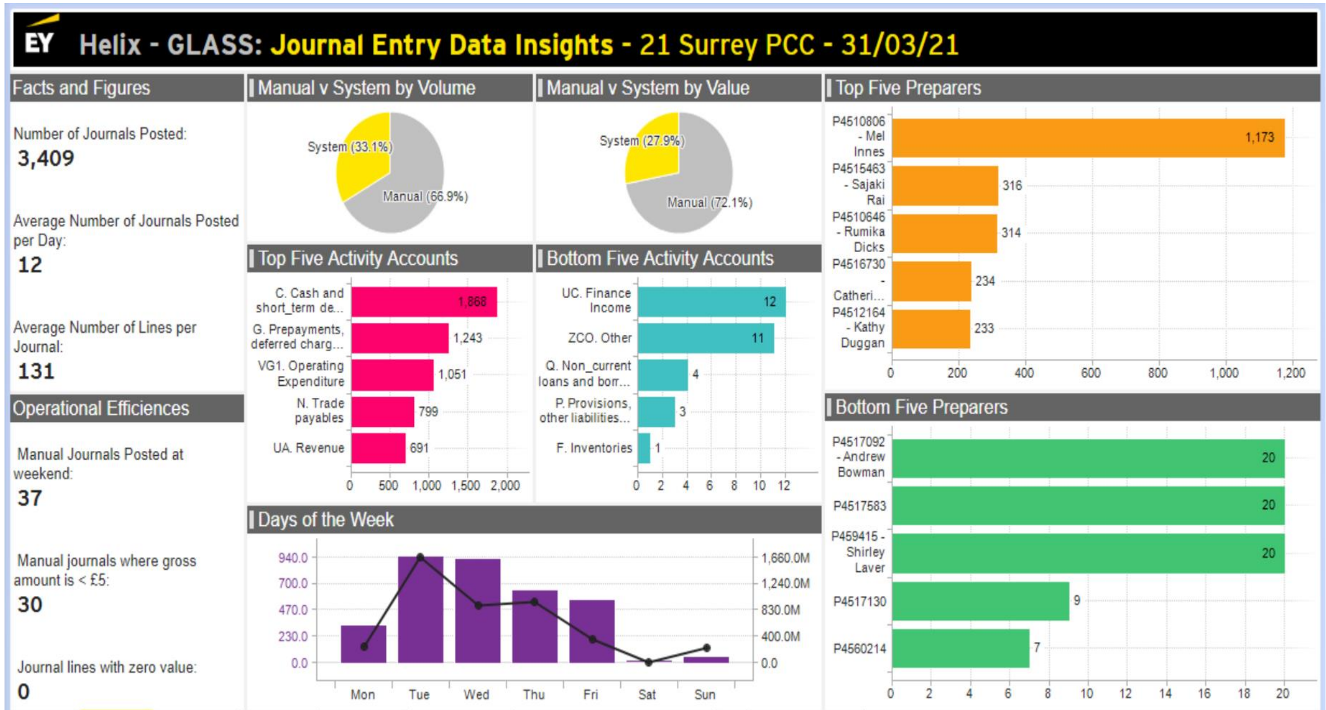
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – PCC/CC's – 31 March 2021



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

09 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the PCC/CC, and its members and senior management and its affiliates, including all services provided by us and our network to the PCC/CC, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young			
Description	Proposed Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee – Code work	41,355	41,355	41,355
Changes in work required to address professional and regulatory requirements and scope associated with risk	22,445	22,445	22,445
Revised Proposed Scale Fee (see Note 1)	63,800	63,800	63,800
Additional Fees (for 2019/20 see Note 2):			14,779
- Additional work on PPE valuations	3,000 – 5,000	TBC	0
- VFM additional procedures	5,000 – 8,000	TBC	0
- Going concern assessment & disclosure	1,000 – 2,000	TBC	0
- Revised auditing standard for estimates	2,000 – 3,000	TBC	0
- Reconciliation and working paper challenges	TBC		
Non-audit work	0	0	0
Total	**TBC**	**TBC**	**78,579**

Note 1 - We set out here a summary of the fees for the year ended 31 March 2021. We confirm that we have not undertaken non-audit work outside the NAO Code. The PCC/CC agreed to refer the proposed additional fee of £22,445 from the scale fee set by PSAA to the PSAA for determination, giving a Code work fee of £63,800, which applies to both the 19/20 and 20/21 audits. This additional fee did not include any further additional procedures required due to the impact of Covid-19, the new auditing standards on going concern and estimates and the changes in the Code of Audit Practice affecting VfM procedures. We will be discussing with the Chief Financial Officers any additional audit fee in relation to these matters on completion of the audit. Any increase from the scale fee also requires approval from PSAA. The proposed changes to the scale fee are yet to be determined by PSAA for 19/20 and 20/21.

Note 2 - 2019/20 Additional Procedures required and as reported within the Annual Audit Letter (subject to review and agreement by PSAA Ltd)

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:

EY UK Transparency Report 2020 | EY UK

10 Appendices

Appendix A

Required communications with the Joint Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		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.	Audit planning report presented at the JAC meeting on 28 July 2021.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report presented at the JAC meeting on 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 presented at the JAC meeting on 20 October 2021.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Audit results report presented at the JAC meeting on 20 October 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 ▸ Material misstatements corrected by management	Audit results report presented at the JAC meeting on 20 October 2021.
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report presented at the JAC meeting on 20 October 2021.
Fraud	▸ Enquiries of the audit committee 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 ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to PCC, CC & Management responsibility.	Audit results report presented at the JAC meeting on 20 October 2021.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 presented at the JAC meeting on 20 October 2021.
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 Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report presented at the JAC meeting on 28 July 2021. Audit results report presented at the JAC meeting on 20 October 2021.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report presented at the JAC meeting on 20 October 2021.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of.	Audit results report presented at the JAC meeting on 20 October 2021.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit planning report presented at the JAC meeting on 28 July 2021. Audit results report presented at the JAC meeting on 20 October 2021.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report presented at the JAC meeting on 28 July 2021. Audit results report presented at the JAC meeting on 20 October 2021.
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit results report presented at the JAC meeting on 20 October 2021.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report presented at the JAC meeting on 20 October 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 presented at the JAC meeting on 20 October 2021.

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]
Elizabeth Jackson
Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Dear Elizabeth,

The Police and Crime Commissioner for Surrey and The Chief Constable of Surrey – Letter of Representations for the financial year 2020/21

This letter of representations is provided in connection with your audit of the consolidated and Police and Crime Commissioner financial statements of the Office of the Police and Crime Commissioner for Surrey and Group (PCC) / Chief Constable (CC) for Surrey ("the PCC/CC") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and PCC and CC financial statements give a true and fair view of the PCC and Group and CC financial position of the PCC/CC as of 31 March 2021 and of their financial performance (or operations) and their cash flows for the year then ended in accordance with, for the PCC and Group and CC, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

We understand that the purpose of your audit of our consolidated and PCC/CC financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the PCC/Group and CC the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
2. We acknowledge, as members of management of the PCC and Group and CC, our responsibility for the fair presentation of the consolidated PCC and CC financial statements. We believe the consolidated, PCC and CC financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group, PCC and CC in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated, PCC and CC financial statements.
3. The significant accounting policies adopted in the preparation of the Group, PCC and CC financial statements are appropriately described in the Group, PCC and CC financial statements.
4. As members of management of the Group, PCC and CC, we believe that the Group, PCC and CC have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group, PCC and CC that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually

Management representation letter (continued)

Management Rep Letter

and in the aggregate, to the consolidated, PCC and CC financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

6. We confirm the Group, PCC and CC do not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group, PCC and CC's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated, PCC and CC's financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group, PCC or CC (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated, PCC or CC's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group, PCC or CC's activities, its ability to continue to operate,
    - or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated, PCC and CC's financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group, PCC and CC and their relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 15 September 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group, PCC and CC's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year

Management representation letter (continued)

Management Rep Letter

ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated, PCC and CC financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with [applicable financial reporting framework.
6. We have disclosed to you, and the Group, PCC and CC has complied with, all aspects of contractual agreements that could have a material effect on the consolidated, PCC and CC financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 11 December 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated, PCC and CC financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent.

E. Going Concern for audits of periods ending on or after 15 December 2020

1. Note 2 to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group, PCC and CC's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated, PCC and CC financial statements or notes thereto.

G. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the PCC and its subsidiary undertaking (Chief Constable).

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2020/21.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Management representation letter (continued)

Management Rep Letter

I. Ownership of Assets

1. That except for assets capitalised under finance leases, the PCC/CC has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the PCC/CC's assets, nor has any asset been pledged as collateral. All assets to which the PCC/CC has satisfactory title appear in the balance sheets.

I. Reserves

1. We have properly recorded or disclosed in the consolidated and PCC and CC financial statements the useable and unusable reserves.

J. Estimates

Valuation of Property, Plant and Equipment Assets

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and PCC financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
2. We confirm that the significant judgments made in making the valuation of assets have taken into account all relevant information and the effects of the COVID-19 pandemic on asset valuations of which we are aware.
3. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuations.
4. We confirm that the disclosures made in the consolidated and PCC financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuations, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuations.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and PCC financial statements.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.
2. We agree with the findings of the specialists that we engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and PCC financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
3. We confirm that the significant judgments made in making the Valuation of Pension Liabilities have taken into account all relevant information and the effects of the COVID-19 pandemic on asset valuations of which we are aware.
4. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuations.

Management representation letter (continued)

Management Rep Letter

5. We confirm that the disclosures made in the consolidated and PCC financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuations, are complete and are reasonable in the context of the applicable financial reporting framework.
6. We confirm that appropriate specialized skills or expertise has been applied in making the valuations.
7. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and PCC financial statements.

Yours faithfully,

Lisa Townsend
Police and Crime Commissioner for Surrey

Kelvin Menon
Chief Finance Officer
On behalf of the PCC for Surrey

APPENDIX C

Implementation of IFRS 16 Leases

In previous reports to the Joint Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the PCC and CC until 1 April 2022. However, officers should be acting now to assess the PCC and CC's leasing positions and secure the required information to ensure the PCC and CC will be fully compliant with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: ▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▸ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▸ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The PCC and CC needs to agree on certain policy choices. In particular: ▸ Whether to adopt a portfolio approach ▸ What low value threshold to set and agree with auditors ▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▸ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the PCC or CC is lessee; and potentially for sub-leases, where the PCC or CC is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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