



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

**Auditor's Annual Report  
Year ended 31 March 2021**

July 2022



**EY**

Building a better  
working world

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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.psa.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 April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the 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 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 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.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on Surrey Police's:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial positions of the Police & Crime Commissioner for Surrey (PCC) and the Chief Constable (CC) for Surrey as at 31 March 2021 and of their expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's reports, for both the PCC's and the CC's financial statements, on 18 March 2022.
Going concern	We have concluded that the Chief Financial Officers' use of the going concern basis of accounting in the preparation of the PCC's and the CC's financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information in the other information published with both sets of financial statements was consistent with the audited accounts.
<b>Area of work</b>	
<b>Conclusion</b>	
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the PCC's and the CC's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the Annual Governance Statements were consistent with our understanding of the PCC and the CC.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of Surrey Police communicating significant findings resulting from our audit.	We issued an Audit Results Report which covered our findings to date for both the PCC and the CC on 20 October 2021. The report was updated for the Joint Audit Committee on 28 January 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

## Fees

We carried out our audit of Surrey Police PCC's and CC's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to management override, the risk of inappropriate capitalisation of revenue expenditure, the risk of inappropriate capitalisation of revenue expenditure in relation to the EQUIP project and the valuation of property, plant and equipment.

As a result, we are in the process of agreeing associated additional fees with the PCC and the CC Chief Finance Officers through the PSAA's fee determination process. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the staff at Surrey Police for their assistance during the course of our work.

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

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of Surrey Police or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the joint PCC and CC Audit Plan that we issued on 14 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on the PCC's and the CC's:

- 2020/21 financial statements;
- conclusions relating to going concern; and
- consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of Surrey Police;
- If we identify a significant weakness in Surrey Police's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of Surrey Police**

Surrey Police is responsible for preparing and publishing its PCC and CC financial statements, narrative reports and governance statements. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for both the PCC and the CC.

Section 3

# Financial Statement Audit





# Financial Statement Audit

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We have issued unqualified audit opinions for both Surrey Police's PCC and the CC 2020/21 financial statements.

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## Key issues

The PCC and CC Annual Reports and Accounts are important tools for Surrey Police to show how its PCC and CC have used public money and how they can demonstrate their financial management and financial health.

On 18 March 2022, we issued unqualified opinions on the PCC's and the CC's financial statements. We reported our detailed findings to the 20 October 2021 Joint Audit Committee meeting and circulated an updated Audit Results Report to the next meeting on 28 January 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our joint PCC and CC Audit Plan.

## Significant risk

## Conclusion

### Misstatements due to fraud or error - management override of controls

An ever present risk that management is in a unique position to commit 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 found no evidence that management had attempted to override internal controls.

We did not identify any instances of inappropriate judgements being applied or of any other transactions during our audit which appeared unusual or outside the PCC and the CC's normal course of business.

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

### Inappropriate capitalisation of expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

Our testing did not identify any material misstatements from inappropriate capitalisation of revenue expenditure.

We did not identify any material weaknesses in controls or evidence of material management override or any instances of inappropriate judgements being applied.

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Inappropriate capitalisation of expenditure - EQUIP</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We considered 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.</p>	<p>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.</p> <p>As a result of our challenge, the Force chose to impair the assets by 50% of their cost value (£958,000) to recognise the uncertainty over their potential use and whether they will bring future economic value to the Force.</p>
<p><b>Valuation of Land &amp; Buildings in Property, Plant and Equipment (PPE) under fair value - Estimated-Use-Value (EUV)</b></p> <p>Land and buildings is the most significant balance in Surrey Police's group balance sheet. 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.</p> <p>Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipated that the valuer would not be able to conduct site visits due to the restrictions in place and that the valuer would have to perform a remote approach to valuing the properties which further increased the risk around these valuations.</p>	<p>We instructed our property valuation team to review a sample of the valuations performed by Surrey Police. The review concluded that the valuations were based on reasonable and supportable assumptions, with the exception of three police stations, whose total valuation was subsequently increased by £3.97 million.</p>

Continued over.

## Financial Statement Audit (continued)

In addition to the significant risks, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Valuation of Land &amp; Buildings in Property, Plant and Equipment (PPE) under depreciated replacement cost (DRC)</b></p> <p>The value of land &amp; buildings in PPE under DRC also represents a significant balance in the PCC and Group's financial statements. 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.</p> <p>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.</p>	<p>We are satisfied that management has valued the assets held at DRC on a reasonable basis.</p>
<p><b>Police Pension Scheme Liability</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We identified that the assumptions used by the Police Pension Fund actuary were reasonable, with the exception of the CPI assumption.</p> <p>Both PWC, the consulting actuary, and our EY actuarial team concluded that the CPI assumption used by the actuary was not supportable.</p> <p>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.</p> <p>Our EY actuarial colleagues were able to conclude that the model used by the actuary to generate the police pension fund disclosures was adequate, as per the new requirements of ISA 540 accounting estimates.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Preparation of the Cashflow Statement</b></p> <p>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.</p>	<p>There were significant revisions to the Cashflow Statement for the PCC and Group as a result of our work in October 2021.</p> <p>The Cashflow Statement is now internally consistent with other areas of the accounts.</p>
<p><b>LGPS Pension Liability Valuation</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our EY actuarial colleagues were able to conclude that the model used by the actuary to generate the LGPS Pension disclosures was adequate, as per the new requirements of ISA 540 accounting estimates.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>Surrey Police is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. We identified a risk that Surrey Police's financial statements did not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>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 in advance of the preparation of the financial statements.</p> <p>We received management's assessment and had nothing to report.</p>
<p><b>Property, Plant and Equipment (PPE) Disposals</b></p> <p>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.</p>	<p>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 during the 2020/21 financial year.</p> <p>We agreed a revised disclosure for Note 11 – PPE to reflect the correct accounting treatment in 2002/21.</p>

Continued over.

# Financial Statement Audit (continued)

## 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. The adjusted audit differences are:

- ▶ *Intangible IT assets*: Impairment of £958,000 for the intangible IT assets capitalised following the cessation of the EQUIP project.
- ▶ *Valuation of PPE assets*: There was an understatement of £3.97 million following challenge from our EY Real Estate specialists. The values of the police stations have increased.
- ▶ *Cashflow Statement*: Officers produced a third version of this primary statement and the supporting notes as it was not internally consistent with other areas of the accounts.

There were also a large number of disclosure adjustments.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Materiality	Planning Materiality	Operating Expenditure or Assets	Audit Differences/ Reporting threshold
<b>Group</b>	£6.14 million	£307.4 million (Operating Expenditure)	£0.308 million
<b>Chief Constable</b>	£6.06 million	£302.9 million (Operating Expenditure)	£0.303 million
<b>Police and Crime Commissioner</b>	£3.47 million	£173.8 million (Assets)	£0.174 million

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The area identified and audit strategy applied include:

- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

## Value for Money



# Value for Money (VFM)

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We identified one risk of significant weaknesses in Surrey Police's VFM arrangements for 2020/21.

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## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 20 October Joint Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of committee minutes and reports, meetings with the Chief Finance Officers for the Police and Crime Commissioner and Chief Constable and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had identified one risk of significant weaknesses in Surrey Police's VFM arrangements for 2020/21 in relation to the governance arrangements in place over the cessation of the EQUIP project.

## Reporting

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We had no matters to report by exception in the audit report.

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We completed and reported the outcome of our planned VFM arrangements work on 28 January 2022 and did not identify any significant weaknesses in the PCC's or the CC's VFM arrangements. As a result, we had no matters to report by exception in the audit reports on the PCC's and the CC's financial statements.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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Our VFM commentary highlights relevant issues for Surrey Police and the wider public.

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



## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that both the PCC and the CC are expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance frameworks during the reporting period, including arrangements for securing value for money from their use of resources, in their governance statements.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on Surrey Police has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

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Surrey Police has the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Financial sustainability

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

Significant financial pressures are identified as part of the annual business planning and monthly financial reporting cycle. There is a £6million savings plan requirement for 2021/22 to balance the budget. The identified savings, developed with support from CIPFA, were scrutinised by Chief Officers as to the acceptability and achievability of the proposed savings. Financial monitoring is in place with a rigorous process of monthly review, including close scrutiny by the Chief Constable's (CC) Chief Finance Officer, the Police and Crime Commissioner's (PCC) Chief Finance Officer and at the monthly Deputy Chief Constable chaired Force Organisation Board, at which progress against the budget is reported. The PCC regularly receives a Financial Report each month which is on the agenda at the Chief Constable accountability meeting.

The savings planned in the first year of the four year plan are within the reserves available in 2021/22. However, the reserve levels would be diminished over the four year plan if the savings are not delivered. Therefore, the CC and PCC both need to focus on the achievement of the total savings target of £23.8 million over the period 2021/22 to 2024/25.

## **Financial sustainability (continued)**

### *How the body plans to bridge its funding gaps and identifies achievable savings*

The Medium Term Financial Plan (MTFP) for 2021/22 was prepared with the assistance from Chartered Institute of Public Finance and Accountancy (CIPFA) in consideration of the Force tactical savings plan for that year. Surrey Police are looking to develop a longer-term plan.

There is a process in place between Change Delivery and finance to manage and monitor the delivery of savings, which has been incorporated into the budget setting process. However, IT savings are still a concern. The Force did make IT savings in 2020/21 but not to the planned level as some projects were delayed. There needs to continue to be close scrutiny of these savings.

We are aware that the Force has a track record of delivering the identified savings and a record of identifying savings to bridge the gaps. The Force has assessed their reserves levels and continue to believe that these are sufficient.

### *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The PCC ensured that the Force's Vision and Mission document is used as a basis for corporate and service planning and is linked to the Police and Crime Plan. The PCC has established performance measures and governance structures that allow the PCC and Surrey Police to assess progress against their objectives. The PCC has also kept the Medium Term Financial Plan under regular review so that financial planning is integrated with service planning.

### *How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The PCC oversees workforce development and asset management plans (e.g. estates and ICT) and scrutinises how these plans fit with the four year Medium Financial Plan. These plans are underpinned by proper analysis and evaluation including option appraisal, assessing the impact of alternative approaches and benefits realisation - for example the scrutiny of the plans for the "Building the Future" programme.

However, these processes have not prevented the termination of the EQUIP programme and lessons to be learnt from the failed ERP (Enterprise Resource Planning) project were presented to the July 2021 Joint Audit Committee.

The PCC recognises that additional expertise is needed and employs external experts for key strategic projects, e.g. to support key decision making on the EQUIP programme and estates strategy.

### **Financial sustainability (continued)**

Workforce planning has improved with the workforce plan introduced across Surrey Police and Sussex Police and reviewed quarterly, which identifies the future workforce mix and profile requirements. This is reviewed at the DCC's Strategic Board and quarterly at the Workforce Capability and Capacity Board and the Surrey Resource Management meeting attended by business representatives and used to understand and review priorities.

#### *How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans*

In 2018/19 HMICFRS assessed Surrey Police through the PEEL programme of inspections and assessed Surrey as "Requires Improvement" for Efficiency, identifying that the force "needs to analyse data more effectively to understand demand (including hidden demand) to better serve the public" and recommended that the force should gain a better understanding of how it uses and prioritises resources to meet current demand.

The response to unplanned changes in demand is detailed in the published Force Management Statement detailing demand for police services and Surrey Police resourcing to meet these demands, together with details of identified areas to be addressed through investment. There is a five year Medium Term Financial Plan which is regularly reviewed and supported by robust, sustainable multi-year budgets to deliver the Force Business Plan and consider external factors such as inflation, borrowing and funding.

**Financial Sustainability Conclusion: Surrey Police has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**

## Governance

### How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The CC ensures that there is a risk management strategy and policy in place to ensure that threats to the achievement of the Force's organisational objectives and regional and national responsibilities are identified and managed effectively via the Organisational Reassurance Board (ORB), with regular risk updates reviewed by the Joint Audit Committee and at the PCC's Performance meeting.

Internal audit is part of the PCC and the CC governance, risk management and internal control, and is outsourced to a third party firm, Southern Internal Audit Partnership (SIAP). Internal audit identified some areas that provided challenge to the organisations' risk environment. Internal audit agreed appropriate corrective actions and a timescale for improvement with the responsible managers. The implementation of these actions has been tracked by the Joint Audit Committee throughout the year.

The overall Annual Internal Audit Opinion for 2020/21 from the Chief Internal Auditor of SIAP was 'reasonable', with weaknesses identified for improvement in the 2021/22 year. This has an improvement in the control environment and opinion from the prior year.

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Surrey Police has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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### How the body approaches and carries out its annual budget setting process

The PCC is required to set a balanced budget. Budget setting is an incremental process which starts with the approved annual budget for the current financial year. Inflation is added to each line using appropriate pay and prices indices. Growth bids, which are necessary to meet increased demand, legal obligations or new priorities are co-ordinated by the Finance department and prioritised before being presented to the PCC.

The management team review the proposed budget at each stage of completion before recommending the agreed MTFP to the PCC. Cash savings are identified through discussions with budget holders and savings plans are scrutinised by the CC. The PCC determines the level of council tax increase in accordance with Government guidelines. The draft budget and MTFP are presented to the PCC in November, with the final budget being presented to the PCC in January, following receipt of the provisional police grant settlement. The PCC presents the budget and council tax proposals to the Police and Crime Panel in late January.

The PCC is required to set a balanced budget. We are satisfied from our minute reviews and meetings with management that appropriate planning has been conducted. In addition, we note that IA in their reports praised the CC in their response to the pandemic and planning around this.

## **Governance (continued)**

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

Budget monitoring reports are presented to both the management team and the PCCs public Level 1 meetings, which are both minuted and published on the PCCs website. Formal PCC decision reports (e.g. contacts and tenders) are also published on the PCCs website.

History of strong financial management with monthly financial reporting to budget holders. The PCC and CC review monthly finance reports that include analysis of position against budget month to date and forecast for the year. From our review of the minutes, we note that the PCC and the CC was reporting a £0.5 million underspend forecast for the year so there is no short term financial resilience risk. In terms of taking corrective action, we have seen that the PCC and CC vire monies where relevant to keep budgets on track. Savings plans for 2020/21 have also been reported as achieved.

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Joint Audit Committee.*

The PCC's and the CC's Joint Audit Committee (JAC) have the responsibility for overseeing the governance of the PCC and the CC. The PCC and the CC Annual Scheme of Governance is revised and reported to the JAC in April each year. The Scheme of Governance is consistent with the principles of the CIPFA Framework, 'Delivering Good Governance'. The various elements of the Scheme of Corporate Governance set out the systems and processes, culture and values by which Surrey PCC and CC is directed and controlled and the activities it undertakes to engage with and be accountable to local communities. It enables the PCC to monitor the achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The PCC and the CC Annual Governance Statements detail the effectiveness and compliance with the governance structure at the end of each financial year and both are reported to the July JAC meeting. The JAC provides external scrutiny of strategic risks and operates in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and within the guidance of the Financial Management Code of Practice. The PCC and the CC have an effective internal audit service that inform and are scrutinised by the JAC.

### **Governance (continued)**

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

The PCC and the CC ensure that all staff have clear objectives and up-to-date Performance Development Reviews (PDRs) and job descriptions. The Force Professional Standards Department (PSD) has the main responsibility for ensuring appropriate legislative, regulatory and ethical requirements are met.

The CC has communicated that all managers and supervisors at all levels of the Force should set a good example and challenge any behaviour that does not meet the Code of Ethics and to clearly communicate the Force's values, standards, expectations and priorities.

The PCC oversees professional standards and the dip checking of complaints files. The PCC publishes the Registers of interests and records of gifts, hospitalities and expenses for the PCC, Chief Officers and relevant staff and shares these with the Joint Audit Committee.

**Governance Conclusion: Surrey Police has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.**

## Improving economy, efficiency and effectiveness

### How financial and performance information has been used to assess performance to identify areas for improvement.

The PCC has a published Police & Crime Plan which clearly sets out the strategic direction and objectives for Surrey and how they will be delivered. An Annual Report detailing delivery against the plan was approved by the Police & Crime Panel. As part of the PCC governance arrangements, there are regular performance meetings which allow the PCC to hold the Chief Constable to account against the priorities of the Police & Crime Plan. Force performance is reported each month in the Force balanced Scorecard which includes a set of performance aspirations to be monitored at performance meetings. The PCC places particular focus on areas of underperformance, e.g. positive outcomes for high harm offences

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Surrey Police has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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### How the body evaluates the services it provides to assess performance and identify areas for improvement

The CC has a mechanism in place to record and respond to recommendations and findings from external review, including HMICFRS and the IOPC, which is overseen by the Organisational Reassurance Board (ORB), chaired by the Deputy Chief Constable. ORB replaces the Strategic Risk and Learning Group (SRALG) previously in place.

The last Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) was in 2018/19 through the PEEL (police effectiveness, efficiency and legitimacy) programme of inspections and assessed Surrey Police as "Good" for Legitimacy, confirming that Surrey Police works hard to promote a no-blame, ethical, learning culture. The CC has continued to emphasise to staff the importance of crime data integrity, compliant with the national standards for crime recording, to ensure effective crime investigation and prevention.

### How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Surrey Police works closely with Sussex Police to provide services to be more efficient. This has been in place for several years and we consider it to be solid evidence of them working with significant partners and stakeholders. They have other collaboration arrangements with other forces at a regional level.

Relationship between the PCC and CC are constructive with performance meetings held by the PCC every six weeks to scrutinise the work of the Force. The PCC also published a commissioning and grants strategy to set the framework to focus resources and work with partners and a funding hub to provide information on how monies have been spent. The PCC has also

### **Improving economy, efficiency and effectiveness (continued)**

engaged with partnerships at a national level (e.g. taken a national lead on equality and diversity issues), at a regional level (e.g. South East collaboration board) as well as at a local level. The Force and PCC have signed up to a number of Collaboration agreements to set out those areas of business to be undertaken jointly with other Forces and Local Policing Bodies.

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

The CC has, with Sussex Police, established a Joint Change function which recognises the importance of strategic planning and integration to incorporate national, regional and local change, business change/adoption and change assurance.

The CC has developed products to support sustainable economic, social and environment benefits delivery, for example, The Strategic Roadmap, visually articulates change impacts to help the Change Assessment Board and Strategic Change Board to improve prioritisation, planning and sequencing of change projects, working closely with the South-East Regional Integrated Policing (SERIP) to align where possible. The Senior Responsible Owner (SRO) reports actions implemented in year to provide full status updates to risk and progress assessments.

A Business Change Heat Map is being developed to highlight significant change areas. A new Business Case template has been developed to improve the investment decision process via improved financial information relating to project costs, project benefits, income generation and funding sources.

**Improving economy, efficiency and effectiveness Conclusion: Surrey Police has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.**



## Responding to a risk of significant weakness in VFM arrangements

### What is the risk of significant weakness?

#### **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.

### Conclusion

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.



Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in both the PCC's and the CC's governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with Surrey Police to complete this work as required.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by Surrey Police or brought to the attention of the public.

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

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Other Reporting Issues (cont'd)

### Control Themes and Observations

As part of our work, 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 significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any significant deficiency controls issues to bring to the attention of the Joint Audit Committee, however, we did identify two areas where internal control should be improved.

Description	Impact and Management Response
<b>Capitalisation of the intangible assets</b>	<i>The value of intangible assets in the financial statements could be overstated.</i>
Our testing of intangible additions identified one asset that the Force had capitalised in the year that did not meet the definition of an intangible asset in accordance with IAS38 and one where the Force had not sufficiently considered whether an impairment should be applied.	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 impaired 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.
<b>Accounts production and supporting working papers</b>	<i>The PCC and CC financial statements prepared and submitted for audit were not high quality leading to a protracted audit and a large increase in the audit fee.</i>
We received two versions of the accounts for audit (21 <sup>st</sup> June and 14 <sup>th</sup> July 2021). The PCC and the CC's first sets of draft statements were presented for audit on 21 <sup>st</sup> 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.	The new team restructure has brought different ways of working in Surrey, previously it was driven by expert staff knowledge, rather than driven by good quality working papers and procedure notes, and this was certainly apparent as we moved through the audit. There was some confusion at times caused by the clarity of audit requests, and again this was very apparent as the audit progressed. The Surrey team has learnt much through this process and are planning on how best to deliver a more audit friendly set of accounts and working papers for the 2021/22 accounts production.

Appendix A

## Audit Fees



## Audit Fees

Our fee for 2020/21 is set out below. The final fee following completion of the work has been discussed with management and is subject to approval by PSAA Ltd.

Description	Proposed Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base 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 (see Note 1)	22,445	22,445	Combined below
2019/20 approved additional fee (see Note 2)	-	-	27,183
2020/21 risk based fee variations (see Note 3):			
- Additional work on PPE valuations	5,232	-	-
- Additional work on pensions	5,456	-	-
- Additional work on intangible assets	2,485	-	-
- VFM risk of significant weakness	4,596	-	-
- Going concern assessment & disclosure	1,058	2,000 – 4,000	-
- Revised auditing standard for estimates (see Note 4)	2,281	2,500	-
- VFM additional procedures (see Note 4)	7,464	6,000 – 11,000	-
- Reconciliation and working paper challenges	12,166		-
Non-audit work	0	0	0
<b>Total</b>	<b>104,538</b>	<b>TBC</b>	<b>68,538</b>

We confirm we have/have not undertaken any non-audit work. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.

- (1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £22,445 to deliver the audit in 2020/21 and we expect this to reoccur in subsequent years.
- (2) We requested additional fee in 2019/20 for the increased regulatory environment and risk based fee variation work we were required to complete to issue the audit report totalling £37,244. PSAA Ltd approved an additional fee of £27,183.
- (3) The risk based fee variations sets out the extended work undertaken in 2020/21 to issue the audit report. The additional fee for 2020/21 has been discussed with management and remains subject to approval by PSAA Ltd.
- (4) The impact on audit fees of the new requirements in the Code of Audit Practice 2020 and new or updated auditing and accounting standards for 2020/21 audits as set out in the Additional information for 2020/21 audit fees issued by PSAA in August 2021. This paper sets out agreed fee ranges for the new requirements. This amount will recur in 2021/22.

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