

Notice of Meeting

Audit & Governance Committee



Date & time
Thursday, 9 April
2015
at 10.00 am

Place
Ashcombe Suite,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact
Cheryl Hardman
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty

cherylh@surreycc.gov.uk

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Members

Mr Nick Harrison (Chairman), Mr W D Barker OBE (Vice-Chairman), Mr Denis Fuller, Mr Tim Evans, Mr Will Forster and Mr Tim Hall

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader), Mr David Munro (Chairman of the County Council) and Mrs Sally Ann B Marks (Vice Chairman of the County Council)

SUPPLEMENTARY AGENDA

- 7 **EXTERNAL AUDIT: AUDIT PLAN FOR SURREY COUNTY COUNCIL (YEAR ENDED 31 MARCH 2015)** (Pages 1 - 22)

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 financial statements of the Council.

- 8 **EXTERNAL AUDIT: AUDIT PLAN FOR SURREY PENSION FUND (YEAR ENDED 31 MARCH 2015)** (Pages 23 - 40)

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 Pension Fund financial statements of the Council.

David McNulty
Chief Executive

Published: 31 March 2015

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Audit & Governance Committee
9 April 2015

**EXTERNAL AUDIT: AUDIT PLAN FOR SURREY COUNTY
COUNCIL (YEAR ENDED 31 MARCH 2015)**

Purpose of the report:

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 financial statements of the Council.

Recommendations:

It is recommended that the Committee approves the attached Audit Plan (Annex A).

Introduction:

1. The Audit Plan outlines the risks we have identified for the audit of the 2014/15 financial statements of the Council and our planned response to them.
2. The report also outlines the work we will undertake as part of our Value for Money conclusion.

2014/15 Financial Statement Risks

3. Our audit plan has identified a series of 'significant' risks and 'other' risks. The 'significant' risks comprise:
 - 2 presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition and management override of controls
 - Valuation of property, plant and equipment, for both schools and non-schools assets
 - Valuation of your pension fund liability

- Consolidation of the assets, liabilities, income and expenditure of the Council's maintained schools into the Council's financial statements
- Preparation of group accounts for the Council to include the accounts of the subsidiaries S. E. Business Services Limited and Surrey Choices Limited

The 'other' risks comprise:

- Operating expenditure, payroll costs and property, plant & equipment. These areas are the most numerically significant elements of the financial statements that are not otherwise addressed by the significant risks above

Value for Money Conclusion

4. The Audit Plan summarises our planned approach to our Value for Money work.
5. We will conduct our work with a focus on these areas:
 - High level review of the Council's financial resilience arrangements
 - Review of the Council's progress in implementing recommendations made in 2013/14
 - Review of progress made in the implementation of Better Care Fund arrangements
 - A review of the benefits and savings achieved through the establishment of S. E. Business Services Limited and Surrey Choices Limited

Results of interim audit work

6. Our report includes detail of work undertaken so far as part of the planning and interim stages of this year's audit.

Conclusion

7. Following agreement with the Director of Finance, the Audit Plan is presented to this Committee for discussion and approval.

Financial and value for money implications

None.

Equalities and Diversity Implications

None.

Risk Management Implications

None.

Next steps:

None.

Report contact: Thomas Ball, Assistant Manager, Grant Thornton

Contact details: Thomas.Ball@uk.gt.com

Sources/background papers: None.

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The Audit Plan for Surrey County Council

Year ended 31 March 2015

9 April 2015

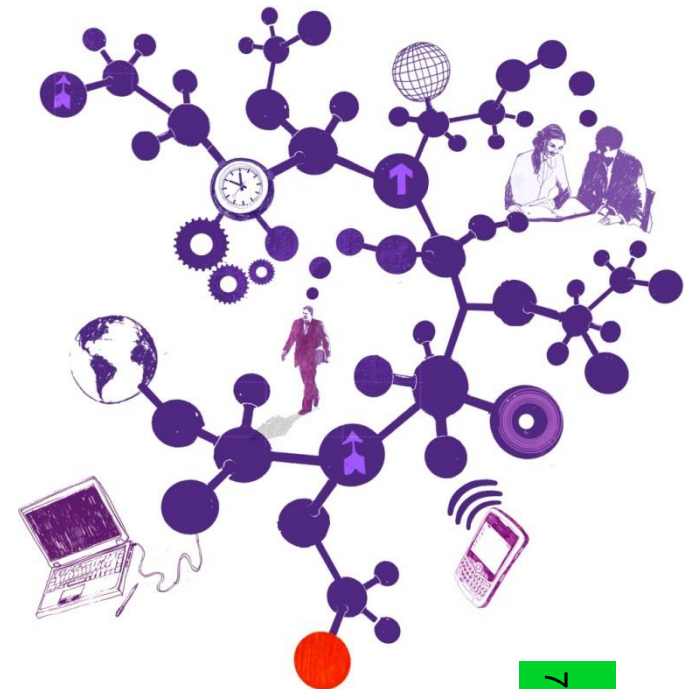
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Andy Mack
Engagement Lead
T 0207 728 3299
E andy.l.mack@uk.gt.com

Kathryn Sharp
Senior Manager
T 01293 554086
E kathryn.e.sharp@uk.gt.com

Tom Ball
Engagement Manager
T 0207 728 3009
E thomas.ball@uk.gt.com

Rajiv Bissessur
Executive
T 0207 728 2458
E rajiv.bissessur@uk.gt.com



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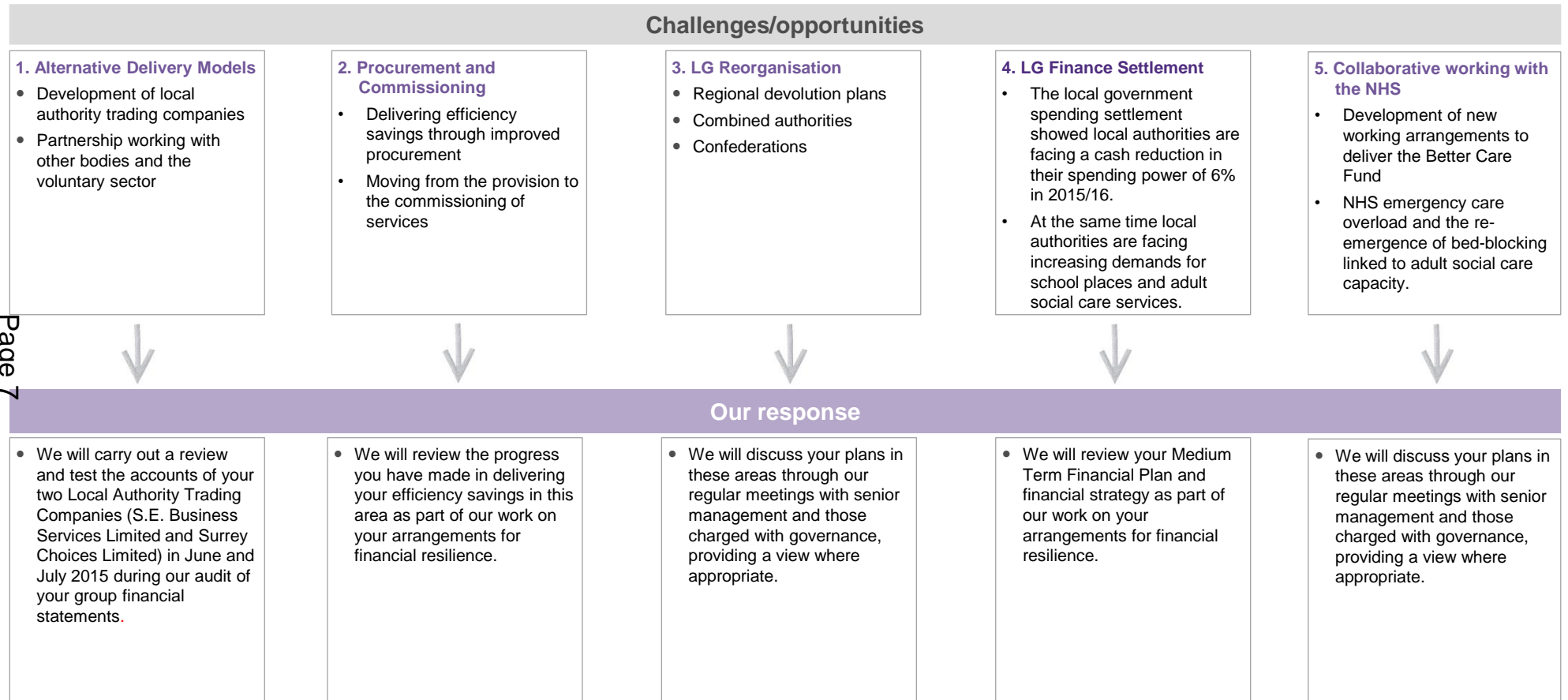
1. Understanding your business
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Changes to the recognition of school land and buildings on local authority balance sheets
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Legislation

- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Better Care Fund

- Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015

5. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

6. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

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Our response

We will consider whether:

- the Council complies with the requirements of the CIPFA Code of Practice, through discussions with management and our substantive testing
- schools are accounted for correctly and in line with the latest guidance
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

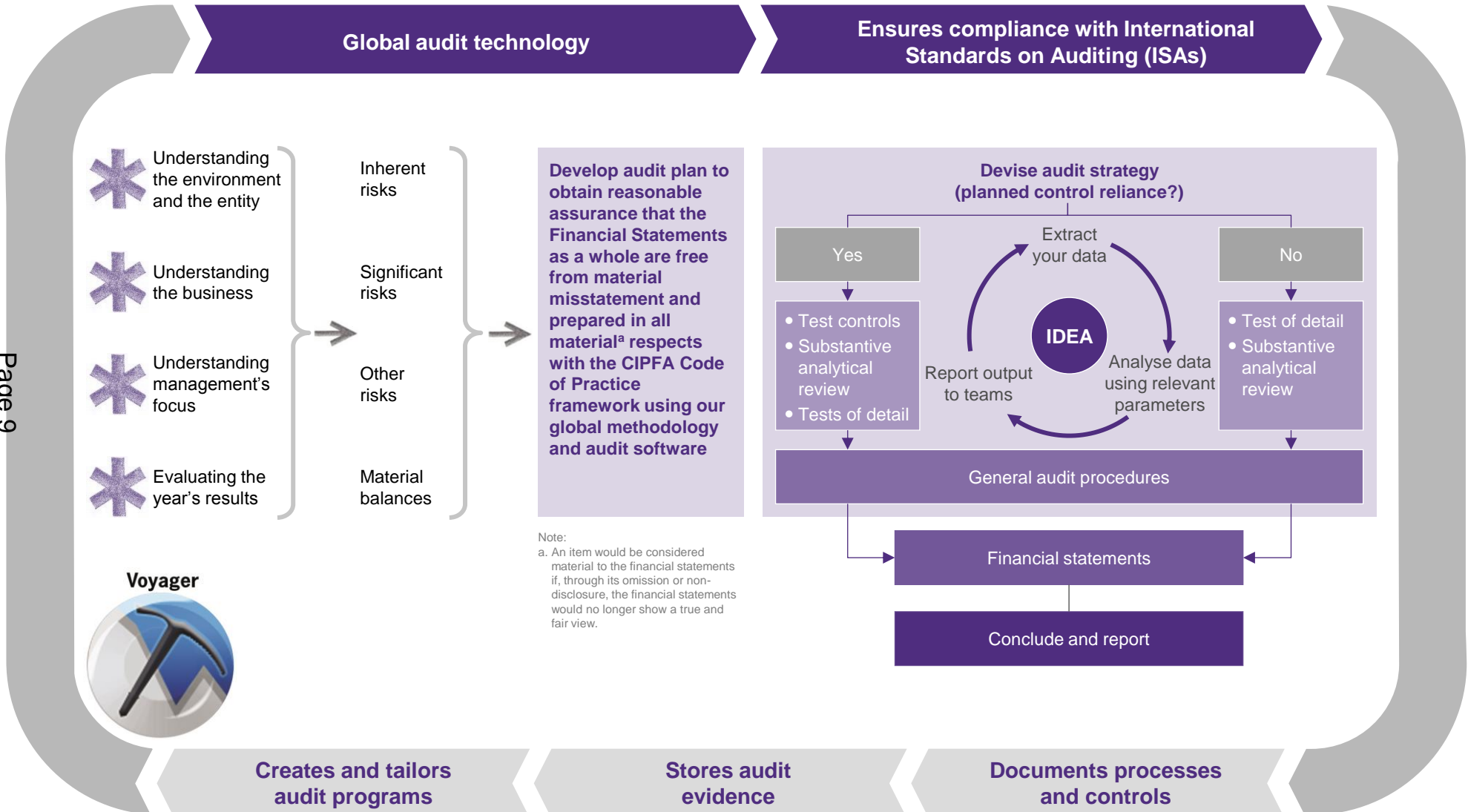
- We will evaluate the impact of the Council's involvement in the BCF for our VfM conclusion.

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council undertakes a rolling programme of revaluations of its land and buildings. This represents a significant estimate by management in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure that the carrying value of property, plant & equipment is not materially different from fair value at year end. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the consistency of the financial statements with the valuation report from your valuers We will undertake procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends.
Valuation of property, plant and equipment - schools	Guidance issued during 2014 has confirmed that maintained schools (but not free schools or academies) are separate entities, and that under IFRS 10 they meet the definition of entities controlled by local authorities which should be consolidated in group accounts. The 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. Identifying and accounting for school land and buildings not already included in the Council's accounts is a significant exercise.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have discussed the guidance with finance team and agreed an approach for the accounting of the authority's voluntary-aided, voluntary-controlled and foundation schools <p>Further work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure the schools to be included in the authority's accounts are correctly identified and accounted for. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the judgements made by management for each school reviewed and agree the land and buildings included to supporting working papers.
Consolidation – schools	Guidance issued during 2014 has confirmed that maintained schools (but not free schools or academies) are separate entities, and that under IFRS 10 they meet the definition of entities controlled by local authorities which should be consolidated in group accounts. The 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. Identifying and accounting for schools not already included in the Council's accounts is a significant exercise.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have discussed the guidance with finance team and agreed an approach for the accounting of the authority's voluntary-aided, voluntary-controlled and foundation schools <p>Further work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure the schools to be included in the authority's accounts are correctly identified and accounted for. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the judgements made by management for each school reviewed and agree assets and liabilities, income and expenditure for those schools included to supporting working papers

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of pension fund liability	The Council's pension fund liability represents a significant estimate in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the consistency of the financial statements with the actuarial report from your actuary • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.
Consolidation – S.E. Business Services Limited and Surrey Choices Limited.	The Council will be preparing consolidated accounts for the first time this year. Although its subsidiaries' accounts are not expected to be quantitatively material to the group, they are qualitatively material.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management over the consolidation process. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of misstatement and ensure that all required disclosures are made. • We will review and test the consolidation working papers and agree to supporting evidence.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Risk area	Risk description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over operating expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the year-end reconciliation of your accounts payable system to the general ledger Testing of year-end creditors and accruals Testing of post-year end payments
Employee remuneration	Employee remuneration accruals understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over payroll expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the year-end reconciliation of your payroll system to the general ledger Trend analysis of the monthly payroll runs from during the year Other substantive testing as appropriate
Property, plant and equipment	Property, plant and equipment activity not valid	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over property, plant and equipment <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the reconciliation of your fixed assets register to the general ledger Testing of a sample of additions and disposals Testing of the depreciation charge for the year

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
S. E. Business Services Limited	No	Targeted	None at this stage.	We will agree amounts to underlying financial records and conduct a high level analytical review.
Surrey Choices Limited	No	Targeted	None at this stage	We will agree amounts to underlying financial records and conduct a high level analytical review.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- A high level review of the Council's financial resilience arrangements, including your Medium Term Financial Plan and delivery of your efficiency savings.
- A review of the Council's progress in implementing the recommendations we raised in 2013/14.
- A review of progress made in the implementation of Better Care Fund arrangements.
- A review of the benefits and savings achieved through the establishment of S. E. Business Services Limited and Surrey Choices Limited.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

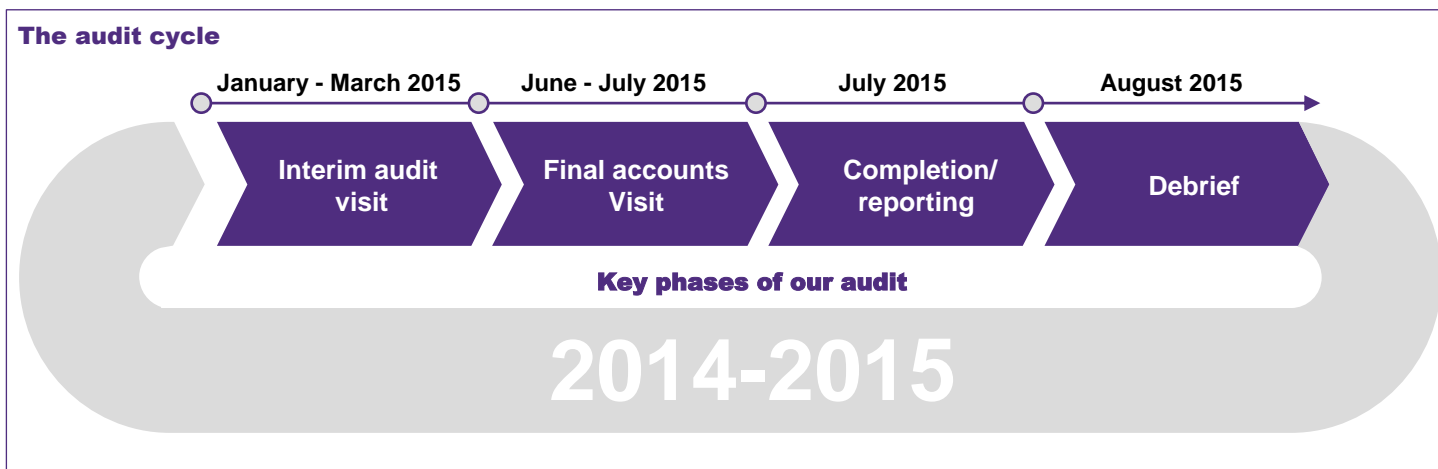
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Work is in progress and any findings will be included in our Audit Findings Report.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will undertake detailed testing on journal transactions recorded for the first eleven months of the financial year alongside our early substantive testing below, by extracting 'unusual' entries for further review.</p>	We will report the findings of this work as part our Audit Findings Report.
Early substantive testing	We will undertake early testing of payroll expenditure, operating expenses and journal transactions in late March 2015.	We will report the findings of this work as part our Audit Findings Report.

Key dates



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Date	Activity
January 2015	Planning
January - March 2015	Interim site visit
9 April 2015	Presentation of audit plan to Audit & Governance Committee
June – July 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Director of Finance
27 July 2015	Report audit findings to those charged with governance
By 31 July 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	189,464
S.E. Business Services Limited	TBC
Surrey Choices Limited	TBC
Total fees (excluding VAT)	189,464

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

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Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Audit & Governance Committee
9 April 2015

**EXTERNAL AUDIT: AUDIT PLAN FOR SURREY PENSION
FUND (YEAR ENDED 31 MARCH 2015)**

Purpose of the report:

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 Pension Fund financial statements of the Council.

Recommendations:

It is recommended that the Committee approves the attached Audit Plan (Annex A).

Introduction:

1. The Audit Plan outlines the risks we have identified for the audit of the 2014/15 Pension Fund financial statements of the Council and our planned response to them.

2014/15 Financial Statement Risks

2. Our audit plan has identified a series of 'significant' risks and 'other' risks. The 'significant' risks comprise:
 - 2 presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition and management override of controls
 - Valuation of level 3 investments

The 'other' risks comprise:

- Contributions, member data, investment purchases and sales activity, benefits payable and the valuation of level 2 investments. These areas are the most numerically significant elements of the financial

statements that are not otherwise addressed by the significant risks above

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Results of interim audit work

3. Our report includes detail of work undertaken so far as part of the planning and interim stages of this year's audit.

Conclusion

4. Following agreement with the Director of Finance, the Audit Plan is presented to this Committee for discussion and approval.

Financial and value for money implications

None.

Equalities and Diversity Implications

None.

Risk Management Implications

None.

Next steps:

None.

Report contact: Thomas Ball, Assistant Manager, Grant Thornton

Contact details: Thomas.Ball@uk.gt.com

Sources/background papers: None.

The Audit Plan for Surrey County Council Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

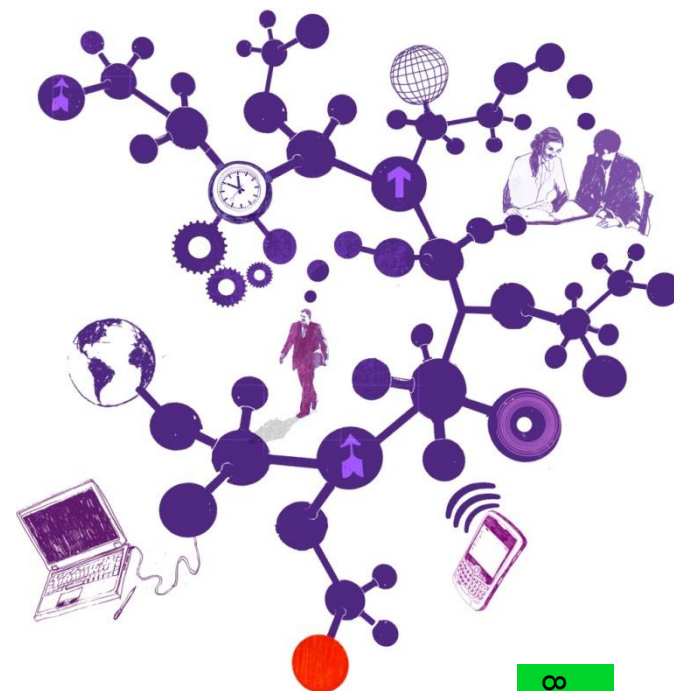
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March 2015

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Darren Wells
Engagement Lead
T 01293 554 120
E darren.j.wells@uk.gt.com

Matt Dean
Assistant Manager
T 020 7728 3181
E matthew.dean@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap. There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

4. Local government outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.



Our response

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share any emerging good practice with officers.

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

2. Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014

- Ahead of 2014/15 funds have moved to implement LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

Our response

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

3. Our audit approach

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Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

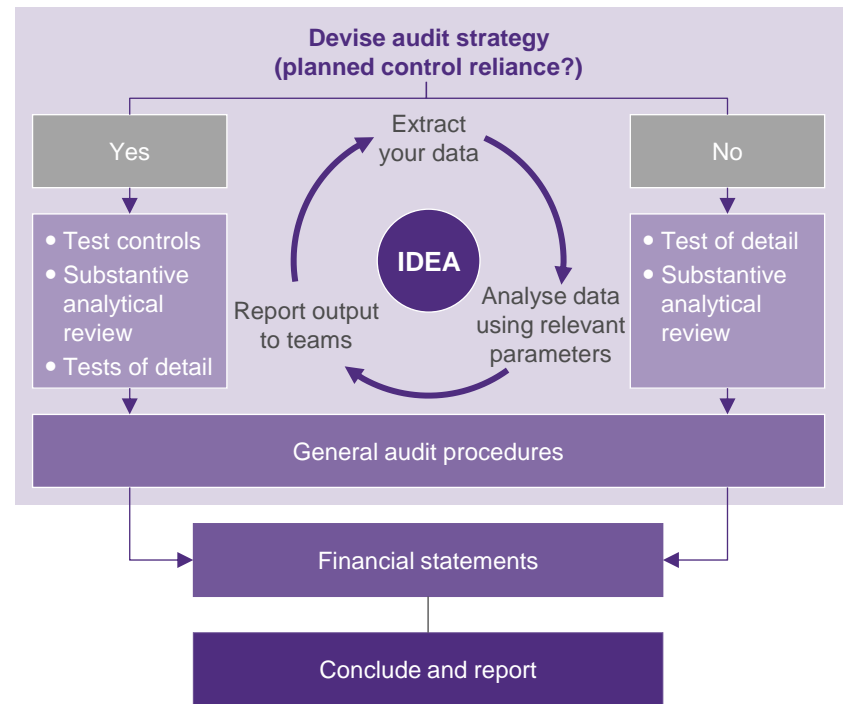
Inherent risks

Significant risks

Other risks

Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls



4. Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Surrey County Council who act as the administrators of the Pension Fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Level 3 Investments – Valuation is incorrect	Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p>Work planned:</p> <ul style="list-style-type: none"> • Gain an understanding of the controls which officers have put in place to gain assurance over the valuation of these investments at year end. • For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March 2015 with reference to known movements in the intervening period. • We will also review the nature and basis of estimated values, as well as the opinions issued on the audited accounts of the specific investments where applicable.

5. Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment values – Level 2 investments	Valuation is incorrect. (Valuation - Net)	<p>Work planned:</p> <ul style="list-style-type: none"> • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any significant variances identified • If required, we will test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices to ensure these have been correctly recorded within the Accounts.
Contributions	Recorded contributions not correct (Occurrence)	<p>Work planned:</p> <ul style="list-style-type: none"> • Controls testing over occurrence, completeness and accuracy of contributions from member bodies • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained • We will also undertake substantive testing on a sample of contributions received by the Fund during the year to ensure they have been deducted at the correct rates given the changes under LGPS 2014.

Other risks identified continued

Other risks	Description	Audit Approach
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any significant variances identified As required, we will then select a sample of purchases and sales incurred during the year and agree these back to supporting documents.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work planned:</p> <ul style="list-style-type: none"> Controls testing over the completeness, accuracy and occurrence of benefit payments We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained We will also select a sample of pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to the benefit calculation on the respective member file We will compare the movements on membership statistics to material transactions in the accounting records
Member Data	Member data not correct. (Rights and Obligations)	<p>Work planned:</p> <ul style="list-style-type: none"> Controls testing over annual/monthly reconciliations and verifications with individual members Sample testing of changes to member data made during the year back to source documentation. We will also ensure the processing of new starters is considered within this testing

6. Results of interim audit work

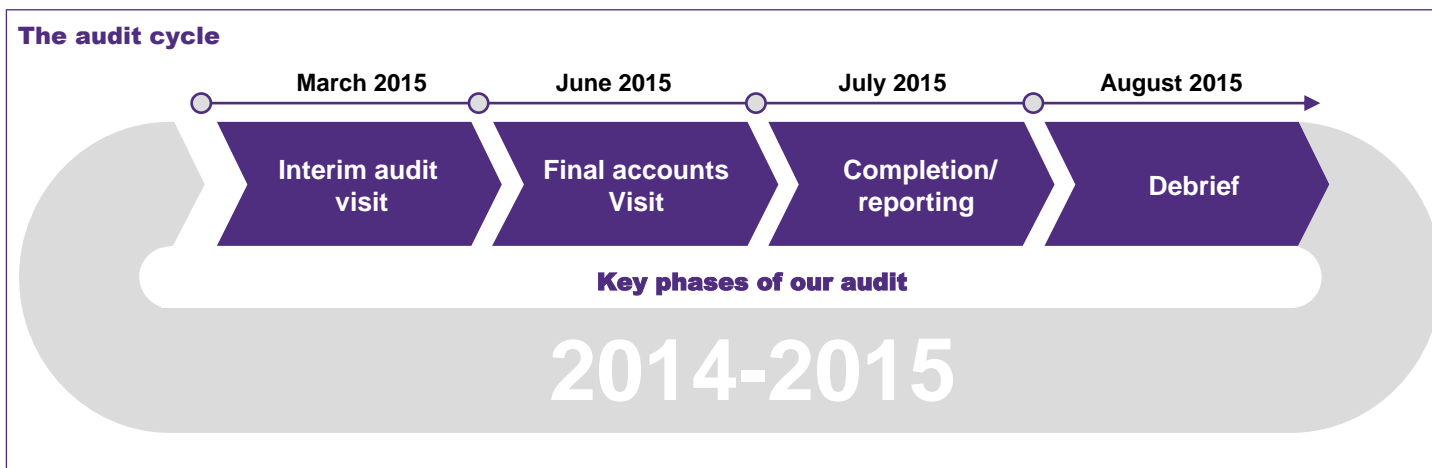
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment at the Administering Authority.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also be performing a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls in our walkthroughs were observed to have been implemented in accordance with our documented understanding.</p>	<p>The work of our information systems specialists is outstanding at this stage, and the results of this will be included within the Audit Findings Report issued in July 2015</p>
Journal entry controls	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>	<p>No control deficiencies have been identified. Detailed testing of journals will be performed during our year end visit and reported within the Audit Findings Report mentioned above.</p>

7. Key dates



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Date	Activity
w/c 2 March 2015	Planning and interim site visit
w/c 30 March 2015	Early substantive testing visit
9 April 2015	Presentation of audit plan to Audit Committee
June 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Director of Finance
July 2015	Report audit findings to those charged with governance (Audit and Governance Committee)
by end of July 2015	Sign financial statements opinion

8. Fees and independence

Fees

	£
Pension Fund Scale Fee	27,105
Total fees (excluding VAT)	27,105

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

9. Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

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Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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