Notice of Meeting

Audit & Governance Committee

SURREY COUNTY COUNCIL

Date & time	Place	Contact	Chief Executive
Thursday, 26 July 2018 at **10.30 am**	Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN	Joss Butler Room 122, County Hall Tel 020 8541 9702 joss.butler@surreycc.gov.uk	Joanna Killian We're on Twitter: @SCCdemocracy

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email joss.butler@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Joss Butler on 020 8541 9702.

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Dr Peter Szanto, Mr Will Forster and Mr Stephen Spence

Ex Officio:

Mr David Hodge CBE (Leader of the Council), Mr John Furey (Deputy Leader), Mr Peter Martin (Chairman of the Council) and Mr Tony Samuels (Vice-Chairman of the Council)

AGENDA

6	**STATEMENT OF ACCOUNTS 2017/18** To inform the Committee of the result of the external audit of the Council's 2017/18 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the Council's letter of representation from the Director of Finance. Annex B in supplementary pack.	(Pages 1 - 20)
a	**SURREY PENSION FUND - LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2017/18 AND GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT** This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2018, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.	(Pages 21 - 86)

Joanna Killian
Chief Executive
Published: 23 July 2018

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Thank you for your co-operation

Audit Findings

Year ending 31 March 2018

Surrey County Council

26 July 2018

Contents

Your key Grant Thornton team members are:

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Headlines

This table summarises the key issues arising from the statutory audit of Surrey County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised in this report. We have not identified any adjustments to the financial statements which result in an adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments in relation to disclosure and classification errors are are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 26 July 2018. These outstanding items include: - receipt of supporting documentation for grant revenues and creditors sampled items - management response to queries made in relation to PPE valuation - completion of work in relation to the Waste PFI scheme and consolidation of Group entities - final internal quality review - receipt of management representation letter; and - review of the final set of financial statements.

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Headlines

This table summarises the key issues arising from the statutory audit of Surrey County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	Members will be aware that we identified two significant VFM risks as part of our Audit Plan for 2017/18: • Children's Services – relating to the Ofsted inspection reports in 2015 and 2018 • Financial Health – in relation to the Council's medium term financial position We have completed our work in respect of Children's Services but have not been able to complete our work in respect of the Council's Financial Health at present. See page 13 for more detail. We therefore anticipate issuing our value for money conclusion at a later date. We will issue a supplementary report to you at a later date when we have completed our value for money work.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until: • we have issued our report on the consistency of the pension fund financial statements when the Council has prepared the Pension Fund Annual Report • we have completed the work necessary to issue our Whole of Government Accounts assurance statement • we have completed our work under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (see page 13 for more detail)

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

- This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

- Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:
  - An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response.
  - We determined that a comprehensive audit response was required for Halsey Garton Property Limited and a targeted approach was required for Surrey Choices Limited and South East Business Services Limited in order for us to form an opinion on the Group position.
  - As appointed auditor to Halsey Garton Property Limited, Surrey Choices Limited and South East Business Services Limited we have undertaken full ISA compliant audits of these entities. The results of this work will be reported to you separately.

We have also carried out:

- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 26 July 2018.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as those reported in our audit plan.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 at Surrey County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Surrey County Council. While we have rebutted revenue recognition as a significant risk, revenue is a material balance in your statement of accounts and therefore we have set out a summary of work performed on this balance and audit findings as follows: – review and testing of revenue recognition policies – sample testing of material revenue streams – review of any unusual or significant transactions Subject to the outstanding items listed on page 3, our audit work has not identified any issues in respect of revenue recognition.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • Summary of work performed and audit findings – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness – obtained a full listing of journal entries and identified and tested journal entries for appropriateness in accordance with the assessed level of risk associated with each journal – evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of property, plant and equipment** The Council revalues its land and buildings on an rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** • Summary of work performed and audit findings – Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work – Considered the competence, expertise and objectivity of any management experts used. – Discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions. – Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. – Tested revaluations made during the year to ensure they are input correctly into the Council's asset register – Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Subject to the outstanding items listed on page 3, our audit work has not identified any issues in respect of the valuation of property, plant and equipment.
4 **Valuation of the pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** • Summary of work performed and audit findings – Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement – Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out – Undertook procedures to confirm the reasonableness of the actuarial assumptions made. – Checked the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from your actuary Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
5 **Employee remuneration** Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** • Summary of work performed and audit findings – evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; – gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls; – re-performed the year end payroll reconciliation and tested whether year-end payroll accruals have been recognised and are not understated; – performed a substantive analytical review of payroll expenditure – carried out an analysis of movements year-on-year. Our audit work has not identified any issues in respect of employee remuneration expenditure.
6 **Operating expenses** Non-pay expenses on other goods and services also represents a portion of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** • Summary of work performed and audit findings – evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; – gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; – tested whether year end operating expenditure accruals have been recognised and not understated; – tested operating expenses on a sample basis. Subject to the outstanding items listed on page 3, our audit work has not identified any issues in respect of operating expenses.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service, rather than when income is received. • Whether paid on account by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: – The Council will comply with the conditions attached to the payments; and – The grant or contributions will be received.	Our review of the accounting polices confirmed that the policy in respect of revenue recognition are adequately disclosed in line with the CIPFA Code of Practice.	Green
Critical judgements	• Critical judgements include: – Level of government grant funding and recognition of grant revenues – Accounting for the Council's PFI schemes – Accounting for schools – Fair value measurement of surplus assets – The Council's interest in other entities • Key estimates include: – The useful economic lives of PPE – Pensions liability – Provision for the impairment of receivables – Fair value measurements where level 1 inputs are unavailable	Critical judgements and key estimates are disclosed in note 3 and 4 of the financial statements and are consistent with the requirements of the CIPFA Code of Practice.	Green
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Green

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Assessment

- Red: Marginal accounting policy which could potentially be open to challenge by regulators
- Amber: Accounting policy appropriate but scope for improved disclosure
- Green: Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with management and the Chair of the Audit Committee We have not been made aware of any incidents of material fraud in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	• We requested from management permission to send a confirmation request to HSBC. This permission was granted and the request was returned with positive confirmation. • For a sample of schools balances we verified your bank balance as at 31 March 2018 by watching an officer log in to your internet banking facilities and show the balance.
6	**Disclosures**	• Our review found no material omissions in the financial statements

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. This work is still to be completed, at present no inconsistencies have been identified. As long as no inconsistencies are identified, or if identified and rectified by management, we plan to issue an unqualified opinion in this respect.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • We plan to complete the WGA work before the deadline of 31 August.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of Surrey County Council in our auditor's report as the value for money conclusion, the WGA work and the review of the Annual Report of the Pension Fund will be outstanding at this point.

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Value for Money

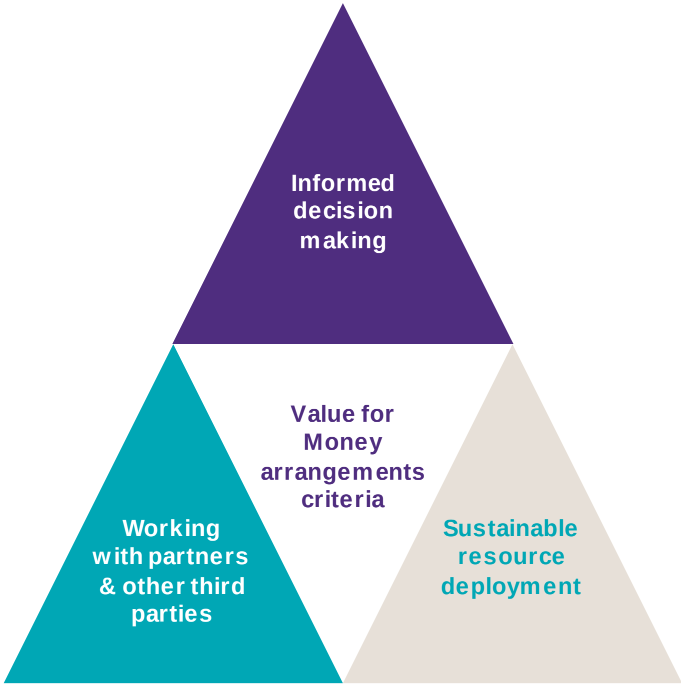
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you via our Audit Plan in March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Taking into account the recent Ofsted inspection of children's services
- To review the work being carried out by CIPFA, commissioned by you to review financial sustainability at the Council, as part our response to the Financial Health risk we identified in our Audit Plan.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

Overall conclusion

We have completed our work in respect of Children's Services but have not been able to complete our work in respect of the Council's Financial Health at present. The Council has asked the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a review of its financial resilience. We are yet to receive a copy of the Terms of Reference for the CIPFA review or a copy of the resulting report.

Our work has been delayed (see Financial health paragraph opposite for detail). We will issue a supplementary report to you at a later date when we have completed our value for money work.

Recommendations for improvement

There are no recommendations arising from our work to date.

Financial Health

We had identified the Council's medium term financial health as a significant risk during our planning work earlier this year. We met with the Director of Finance as part of our planning process and agreed that we would review the 2018/19 budget position and savings plans and proposals. In May 2018 we provided the Council with a draft terms of reference for an in-depth review of the financial position. The Council had separately asked CIPFA to carry out a review of its financial resilience among other things. We were told the CIPFA review would have considerable overlap with the work that we had proposed so we agreed to delay any detailed work until we had seen the terms of reference and findings from the CIPFA review. At the time of writing we have not received CIPFA's Terms of Reference or their interim report, however we now understand that it is unlikely that CIPFA's work will overlap with our proposed value for money work. We will therefore need to carry out our work as previously planned.
We are therefore not in a position to issue our VFM conclusion at this time. Once we have been able to carry out and conclude our work we report our findings to you as soon as possible via a supplementary report.

Significant matters discussed with management

There have been no other matters to date where no evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial health** • You have a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Forecast revenue budget outturn for 2017/18 is a £6m overspend.	• We will review your Medium Term Financial Plan, including the robustness of assumptions. We will review savings plans and revenue generating schemes. We will discuss your plans and outcomes with management, as well as reviewing how finances are reported to Councillors.	• We are unable to conclude on this risk at the current time for the reasons set out above..
2	**Children's services** • Ofsted issued a critical report on children's services in 2014/15 and you are currently subject to follow up review. We issued a qualified except for conclusion in 2014/15, 2015/16, and 2016/17 due to Department for Education interventions.	• We have reviewed the re-inspection of services for children in need of help and protection, children looked after and care leavers Ofsted report published in May 2018. The report rated children's services across the County as inadequate. This was a follow up report to the June 2015 report when children's services were also rated as inadequate. • Ofsted were particularly critical about the lack of progress that you have made since the 2015 report and the lack of leadership shown to address the challenges raised in the 2015 report. • As a result Ofsted have found that 'children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken'. This is a clear indication that the processes and procedures you have in place in relation to children's services are not conducive to providing value for money for residents. • Ofsted also reported that you have begun to address these issues over the last few months however at the time of writing it is too early to judge whether these changes will have the desired effect and whether they will become embedded across the organisation.	• Our review of the most recent Ofsted report has led us to conclude that the processes and procedures you have in place in relation to children's services are not conducive to providing value for money for residents.

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified

Service	£	Threats	Safeguards
Audit related			
Certification of Teachers' Pensions return	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £142,098 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pensions return –Surrey Choices Limited	3,500	Self-Interest (because this is a recurring fee)	Marcus Ward's wife is a teacher at a school in Surrey. Marcus will not be part of the audit team that completes the certification of the Teachers' Pension returns.
Non-audit related			
CFO Insights subscription (This is a 3 year subscription from 2017/18 to 2019/20. £12,500 is the annual charge)	12,500	None	None
Financial Modelling for Morgan Sindall Investments Joint Venture bid (Non-SCC service)	-	None	We have not provided accounting services to Morgan Sindall. The scope of this piece of work was to build the functionality for a cash flow financial model to support their bid to partner with the Council. Assumptions and figures used in the model are outside of the scope of this work and will be prepared by Morgan Sindall to support their bid. We are satisfied that there is no conflict of interests in relation to this work.

The amounts detailed above are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. These amounts were also reported to you in our Audit Plan. We have not been commissioned to undertake any work since we reported these amounts to you via our Audit Plan in March. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following recommendation was in progress last year as a follow up to our 2015/16 financial statements audit. We are pleased to report that management have implemented our one outstanding recommendation.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• **IT controls – security audit log functionality is not enabled** Ensure that system security audit logs are recorded and monitored	• Management undertook a technical implementation of GRC 10.1 (Governance Risk & Compliance). This SAP tool has been fully tested by the SAP security team and it is now ready to be rolled out to business users. • Wider SAP Security framework • GRC is one of the range of measures management is implementing to improve how SAP security and the associated risks are managed. The other aspects are as follows:- o a SAP security forum - consisting of SAP security team and business leads for each main function); o business ownership of roles & data; o defined roles & responsibilities for business owners and IT; and o adoption of gatekeeper/owner approach for changes to SAP roles and access requests.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements
There were no adjusted misstatements.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Comprehensive Income and Expenditure Statement casting	• It was found that the prior year totals in the CIES, line "Surplus or deficit on Provision of Services“ has been casted incorrectly.	✓
Accounting policies	• Inadequate disclosure relating to 'assets not revalued'. Recommended change to reflect accounting policies disclosed in the prior year.	✓
Note 14: Investment properties	• The reclassification of Assets Under Construction (AUC) to investment properties of £22m from the Property, Plant & Equipment note was stated as ‘additions’ on Note 14. This ought to be split between amounts that are additions to this asset during the year, and the amount that is a reclassification from AUC.	✓
Note 16: Financial Instruments	• Error casting note 16. Balance per financial statements is £129,218k, but should be correct amount is £125,218k.	✓
Note 34: Capital expenditure and capital financing	• Missing £12m for payment against Waste PFI liability line.	✓
Note 39: Defined Benefit Pension Schemes.	• 2.6% discount rate stated instead of 2.7%.	✓
Misclassification adjustment in the Firefighters' Pension Fund Account statement	• Contributions receivable from employer (normal)' line in the Firefighters' Pension Fund Account statement is incorrectly classified. The figure of £2.5m should be -£2.9m. The £7,5m benefits payable pensions figure also needs to be amended to £12.9m.	✓
Miscellaneous	• Various minor typos, referencing, consistency and rounding errors	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Surrey County Council Audit	142,098	142,098
Audit of subsidiary companies:		
Surrey Choices Ltd	17,000	17,000
Halsey Garton property Ltd	12,500	12,500
South East Business Services Ltd	12,000	12,000
Total audit fees (excluding VAT)	**£183,598**	**£183,598**

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Teachers' Pensions return for Surrey County Council	4,000
• Certification of Teachers' Pensions return for Surrey Choices Ltd	3,500
Non-audit services:	
• CFO Insights annual subscription (£37,500 for a three year subscription)	12,500
Total fees for other services (excluding VAT)	**£20,000**

The proposed fee for the Surrey County Council audit is in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).
NB The audits of the subsidiary companies and the grant certification work fall outside the remit of Public Sector Audit Appointments Limited, therefore no scale fee is produced.

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AUDIT & GOVERNANCE COMMITTEE

26 July 2018

SURREY PENSION FUND
LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2017/18
AND
GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT

SUMMARY AND PURPOSE:

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2018, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) expects to issue an unqualified opinion on the accounts.

Grant Thornton, as the Council's external auditor, has completed its audit and the Pension Fund financial statements are presented to this Committee to be approved prior to publication.

Annex A represents the primary statements and accompanying notes to the accounts.

The result of the external audit is reported in the Audit Findings for Surrey Pension Fund Report, which is presented at Annex 2.

RECOMMENDATIONS:

The Committee is asked to:

(i) Approve the 2017/18 Pension Fund financial statements in Annex 1.
(ii) Consider the content of the Audit Findings for Surrey Pension Fund Report in Annex 2.
(iii) Determine any issues that need to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
(iv) Consider the content of the draft representation letter as set out in Annex 3 and authorise the Deputy Chief Finance Officer to sign it on the Council's behalf.

2016/17 PENSION FUND ACCOUNTS

1. Grant Thornton audits both the County Council and Pension Fund accounts and is required to present separate audit opinions on each.

2. During the audit, Grant Thornton identified a few minor issues, which have led to a number of minor, non-material amendments being made to the 2017/18 draft financial statements and related notes to the accounts.

3. Annex A represents the Pension Fund primary statements.

2016/17 AUDIT FINDINGS REPORT

4. The external auditor is required to report on the Pension Fund financial statements. The Audit Findings for Surrey Pension Fund Report is presented at Annex B and sets out a summary of the work carried out, the conclusions reached and recommendations made.

5. The Committee will note that the auditor is anticipating issuing an unqualified opinion on the financial statements

MANAGEMENT REPRESENTATION LETTER

6. It is considered good practice for those charged with governance to provide the external auditor with a letter of representation in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist.

IMPLICATIONS:

A) Financial
There are no direct financial implications.

B) Equalities
There are no direct equality implications.

C) Risk management and value for money
Pension Fund risks are proactively monitored by officers and the Surrey Pension Fund Committee.

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Annexes:
1. Pension Fund Financial Statements 2017/18
2. Audit report 2017/18
3. Draft letter of representation

Sources/Background papers:
Closure of Accounts Working Papers 2017/18
Statement of Accounts of the Surrey Pension Fund 2017/18

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SURREY PENSION FUND ACCOUNTS 2017/2018

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2017/2018 and of the disposition of its assets at 31 March 2018.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

The fund exists to provide pensions and other benefits for employees, their widows, widowers or dependants in accordance with Local Government Pension Scheme Regulations.

The number of employees in the fund and the number of pensioners as at 31 March 2017 and 31 March 2018 are:

31 Mar 2017		31 Mar 2018
34,298	Employees in the fund	35,802
24,025	Pensioners	25,135
41,573	Deferred pensioners	45,079
99,896	**Total**	**106,016**

Surrey pension fund account

2016/2017 £000		Note	2017/2018 £000
	Contributions and benefits		
192,802	Contributions receivable	7	**178,283**
6,848	Transfers in	8	**12,881**
199,650			**191,164**
-136,484	Benefits payable	9	**-144,146**
-6,694	Payments to and on account of leavers	10	**-9,527**
-13,217	Investment and governance expenses	14	**-12,222**
-1,250	Administration expenses		**-1,626**
-157,645			**-167,521**
42,005	**Net additions from dealings with members**		**23,643**
	Return on investments		
62,306	Investment income	16	**65,751**
-1,068	Taxes on income	15	**-1,032**
541,953	Change in market value of investments	17	**98,662**
603,191	**Net return on investments**		**163,381**
645,196	**Net increase in the fund during the year**		**187,024**
	Net assets of the fund		
3,223,663	**At 1 April**		**3,868,859**
3,868,859	**At 31 March**		**4,055,883**

Net asset statement

31 Mar 2017 £000		Note	31 Mar 2018 £000
	Investment assets	17	
583,302	Bonds		**601,208**
2,288,136	Equities		**2,413,734**
275,367	Property unit trusts		**321,737**
390,257	Diversified growth		**394,288**
145,113	Private equity		**155,782**
	Derivatives	17c	
	- Futures		
1,050	- Foreign exchange contracts		**1,327**
117,498	Cash		**80,636**
42,000	Other short term investments		**60,000**
8,220	Other investment balances	17b	**4,740**
	Investment liabilities		
	Derivatives	17c	
0	- Futures		**0**
-1,095	- Foreign exchange contracts		**-1**
-4,876	Other investment balances	17b	**-3,393**
0	Borrowings		**0**
3,844,972	**Net investment assets**		**4,030,058**
9,075	**Long-term debtors**	12	**7,260**
22,371	**Current assets**	11	**29,861**
-7,559	**Current liabilities**	13	**-11,296**
3,868,859	**Net assets of the fund at 31 March**		**4,055,883**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General
   The fund is governed by the Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:
   - The LGPS Regulations 2013 (as amended)
   - The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

During 2017/18 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

b) Membership
   Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.
   Organisations participating in the Surrey Pension Fund include:
   - Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
   - Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.

c) Funding
   Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	Service pre 1 April 2008	Service 1 April 2008 until 31 March 2014
Basis of pension	1/80th of final salary	1/60th of final salary
Lump sum	Automatic lump sum 3 x salary Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org).

	Service 1 April 2008 until 31 March 2014	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60th of salary	1/49th of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

Pre 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

LGPS 2014 employee contribution rates for 2017/18	
Pensionable payroll banding	Contribution rate
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,800	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or the LGPS 2014 scheme website (http://www.lgps2014.org).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at the year end at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) Contribution income
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

c) Investment income
   i) Interest income
   Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium,

transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity
Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

Fund account – expense items

e) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation
The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2018 is reported as a current liability.

g) Administration expenses
Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

h) Investment and governance expenses
All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

Net assets statement

i) Financial assets
All financial assets are included in the net asset statement on a fair value basis as at the reporting date, with the exception of loans and receivables which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards

followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

v) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

vi) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.

j) Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

k) Derivatives
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contacts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

l) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

m) Financial liabilities
The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to

the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.
As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) Additional voluntary contributions
Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093).

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2018 was £155.8 million (£145 million at 31 March 2017).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement or subsequent notes as at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £145 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £95 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Deputy Chief Finance Officer (Interim S151 Officer) in July 2018. The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

2016/2017 £000		2017/2018 £000
105,316	Employers	97,181
49,390	Employers deficit	42,982
38,096	Members	38,121
192,802		**178,283**

2016/2017 £000		2017/2018 £000
87,529	Administering authority	83,861
85,967	Scheduled bodies	86,022
19,306	Admitted bodies	8,400
192,802		**178,283**

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2016/2017 £000		2017/2018 £000
0	Group transfers from other schemes	0
6,848	Individual transfers in from other schemes	**12,881**
6,848		**12,881**

Note 9: Benefits payable

By category

2016/17 £000		2017/18 £000
114,054	Pensions	119,064
19,023	Commutation and lump sum retirement benefits	21,606
3,355	Lump sum death benefits	3,399
52	Interest on late payment of benefits	77
136,484		**144,146**

By employer*

2016/2017 £000		2017/2018 £000
64,320	Administering Authority	69,389
61,003	Scheduled Bodies	63,587
11,109	Admitted Bodies	11,093
136,432		**144,069**

Note 10: Payments to and on account of leavers

2016/2017 £000		2017/2018 £000
6,409	Group transfers to other schemes	9,257
0	Individual transfers to other schemes	0
316	Refunds of contributions	283
-31	Payments for members joining state schemes	-13
6,694		**9,527**

Note 11: Current assets

2016/2017 £000		2017/2018 £000
2,619	Contributions - employees	3,215
9,337	Contributions - employer	9,838
10,415	Sundry debtors	16,808
22,371		**29,861**

Analysis of current assets

2016/2017 £000		2017/2018 £000
3,730	Central government bodies	5,612
15,746	Other local authorities	19,122
2,895	Other entities and individuals	5,128
22,371		**29,861**

Note 12: Long term debtors

2016/2017 £000		2017/2018 £000
9,075	Central government bodies	7,260
9,075		**7,260**

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2018 is £9.075m but £1.815m was due in 2017/18, leaving a long term debtor of £7.260m.

Note 13: Current liabilities

2016/2017 £000		2017/2018 £000
7,368	Sundry creditors	11,094
123	Benefits payable	202
7,491		**11,296**

Analysis of current liabilities

2016/2017 £000		2017/2018 £000
1,574	Central government bodies	1,418
1,848	Other local authorities	6,254
4,069	Other entities and individuals	3,624
7,491		**11,296**

Note 14: Investment and governance expenses

2016/2017 £000		2017/2018 £000
12,105	Investment management fees	11,263
103	Investment custody fees	239
1,009	Oversight and governance costs	721
13,217		**12,222**

The investment management fees includes £613k (2016/17:£ 1.0million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.1million in respect of transaction costs (2016/17: £1.5million).

As part of its oversight and governance costs in 2017/18, the fund had also spent £144k in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: Taxes on Income

2016/2017 £000		2017/2018 £000
988	Withholding tax – equities	978
80	Withholding tax – property	54
1,068		**1,032**

Note 15b: External Audit Costs

2016/2017 £000		2017/2018 £000
27	Payable in respect of external audit	27
27		**27**

Note 16: Investment income

2016/2017 £000		2017/2018 £000
	Bonds	
4,079	UK	**3,667**
8,060	Overseas	**7468**
	Equities	
22,358	UK	**24,959**
14,274	Overseas	**11,260**
7,808	**Property unit trusts**	**9,062**
1,226	**Diversified growth**	**1,052**
3,249	**Private equity**	**2,315**
745	**Interest on cash deposits**	**4,807**
507	**Other**	**1,161**
62,306		**65,751**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	**583,327**	304,323	-283,524	-2,918	**601,208**
Equities	**2,288,136**	1,938,482	-1,845,436	32,552	**2,413,734**
Property unit trusts	**275,367**	88,284	-54,202	12,288	**321,737**
Diversified growth	**390,257**	2,327	0	1,704	**394,288**
Private equity	**145,228**	53,184	-50,680	8,050	**155,782**
Derivatives					
- Futures		311	-406	95	
- Forex contracts	**-45**	28,423	-68,141	41,089	**1,326**
	3,682,270	**2,415,334**	**-2,302,389**	**92,860**	**3,888,075**
Cash	**117,498**			5,802	**80,636**
Other Short Term Investments	**42,000**				**60,000**
Other investment balances	**3,344**				**1,347**
Borrowing					
	3,845,112			**98,662**	**4,030,058**

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6a

	Market value at 31 Mar 2016 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Market movements £000	Market value at 31 Mar 2017 £000
Bonds	**511,051**	41,289	-33,783	64,745	**583,302**
Equities	**1,851,024**	368,898	-429,215	497,429	**2,288,136**
Property unit trusts	**225,690**	75,125	-25,937	489	**275,367**
Diversified growth	**376,686**	243,208	-242,797	13,160	**390,257**
Private equity	**129,353**	19,465	-29,763	26,058	**145,113**
Derivatives					
- Futures	**26**	-307	38	243	**0**
- Forex contracts	**-6,287**	72,443	-5,711	-60,490	**-45**
	3,087,543	**820,121**	**-767,168**	**541,634**	**3,682,130**
Cash	**64,302**			319	**117,498**
Other short term investments	**47,000**				**42,000**
Other investment balances	**7,501**				**3,344**
Borrowing	**0**				**0**
	3,196,346			**541,953**	**3,844,972**

Note 17b: Analysis of investments

	31 Mar 2017	31 Mar 2018
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	298,283	205,115
UK pooled funds	0	0
Overseas public sector & quoted	66,803	0
Overseas pooled fund	218,216	396,093
	583,302	**601,208**
Equities		
UK quoted	279,493	605,423
UK pooled funds	389,731	418,042
Overseas quoted	990,625	320,896
Overseas pooled funds	628,287	1,069,373
	2,288,136	**2,413,734**
Property unit trusts		
UK property funds	263,100	279,879
Overseas property funds	12,267	41,858
	275,367	**321,737**
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	390,257	394,288
	390,257	**394,288**
Private equity		
UK limited partnerships	25,859	22,717
Overseas limited partnerships	24,237	41,411
UK fund of funds	0	0
Overseas fund of funds	95,017	91,654
	145,113	**155,782**
Derivatives		
Futures		
FX forward contracts	-45	1,326
	-45	**1,326**
Cash deposits	**117,498**	**80,636**
Other short term investments	**42,000**	**60,000**
Other investment balances		
Outstanding sales	1,385	357
Outstanding purchases	-4,876	-3,393
Tax due on accrued income	0	
Accrued income - dividends and interest	6,835	4,383
	3,344	**1,347**
Total investments	**3,844,972**	**4,030,058**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2018 the fund had no future contracts in place. At 31 March 2017 the fund had four futures contracts in place with an unrealised loss of £61k.

31 March 2018

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	**-**	**-**	**-**	**0**	**0**	**0**
				0	**0**	**0**

31 March 2017

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	08/06/2017	3 Months	US Treasury Bonds	-966	0	-9
Futures	21/06/2017	3 Months	US Treasury Bonds	844	0	-44
Futures	21/06/2017	3 Months	US Treasury Bonds	-1,156	0	0
Futures	28/06/2017	3 Months	UK Government Bonds	-3,572	0	-8
				-4,850	**0**	**-61**

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2018 the Fund had forward currency contracts in place with a net unrealised gain of £1,327k (net unrealised loss of £45k at 31 March 2017).

2017/18

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One Month	GBP	JPY	137	-20,650	0	0
5	Two Months	GBP	EUR	118450	-134,064	702	0
5	Two Months	GBP	JPY	66,837	-9,954,387	19	0
8	Two Months	GBP	USD	374,615	-525,891	606	0
						1,327	**0**

2016/17

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
2	1 Month	CAD	GBP	381	-230	0	-1
2	1 Month	EUR	GBP	31	-26	0	0
1	2 Months	EUR	GBP	143	-123	0	-1
1	1 Month	GBP	AUD	8	-13	0	0
1	1 Month	GBP	BRL	13	-51	0	0
1	1 Month	GBP	EUR	3	-4	0	0
6	2 Months	GBP	EUR	7,635	-8,831	76	0
5	3 Months	GBP	EUR	109,884	-128,613	0	-268
1	1 Month	GBP	HKD	21	-207	0	0
1	2 Months	GBP	JPY	1,834	-254,405	7	0
4	3 Months	GBP	JPY	79,531	-11,190,096	0	-843
1	2 Months	GBP	SEK	3,205	-35,130	56	0
1	1 Month	GBP	USD	36	-45	0	0
4	2 Months	GBP	USD	12,531	-15,672	9	0
7	3 Months	GBP	USD	349,613	-436,628	902	0
1	1 Month	GBP	ZAR	49	-818	1	0
1	1 Month	IDR	GBP	1,011,204	-61	0	0
3	1 Month	JPY	GBP	222,490	-1,611	0	-14
3	1 Month	JPY	USD	46,526	-419	0	-1
1	2 Months	JPY	USD	254,440	-2,230	0	45
1	1 Month	USD	GBP	146	-117	0	-1
2	2 Months	USD	GBP	2,200	-1,769	0	-11
1	1 Month	USD	JPY	4	-450	0	0
1	1 Month	ZAR	GBP	11	-1	0	0
						1,050	**-1,095**

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2017/18 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 18 the value of quoted securities on loan was £132.5million in exchange for collateral held by the fund custodian at fair value of £144.1million.

Note 17d: Investments analysed by fund manager

Market value 31 March 2017 £000	%	Manager	Market value 31 March 2018 £000	%
1,066,206	27.8	Legal & General Investment Management	1,151,591	28.6
382,372	10.0	Majedie Asset Management	373,811	9.3
300,771	7.8	UBS Asset Management	311,993	7.7
486,154	12.7	Marathon Asset Management	498,553	12.4
307,211	8.0	Newton Investment Management	317,106	7.9
312,688	8.2	Western Multi Asset Credit	322,509	8.0
74,119	1.9	Franklin Templeton Investments	73,663	1.8
143,695	3.7	Baillie Gifford Life Limited	150,596	3.7
232,323	6.1	CBRE Global Multi-Manager	260,170	6.5
68,875	1.8	Darwin Property Investment Management	73,508	1.8
123,768	3.2	Ruffer	122,576	3.0
122,793	3.2	Aviva	121,117	3.0
3,620,975			**3,777,193**	

The table above excludes the private equity portfolio, internal cash and residual cash held by the custodian.

The following investments represent more than 5% of the net investment assets of the fund

Market value 31 March 2017 £000	% of total fund	Security	Market value 31 March 2018 £000	% of total fund
464,390	14.5	Legal & General World Developed Equity Index	496,453	12.3
0	0	Marathon Global Contractual Fund	494,553	12.3
355,919	11.1	Legal & General UK Equity Index	376,553	9.3

Note 18a: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2017				As at 31 March 2018		
Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
583,802	0	0	Bonds	601,208		
2,288,136	0	0	Equities	2,413,735		
275,367	0	0	Property unit trusts	321,737		
390,257	0	0	Diversified growth	394,288		
145,113	0	0	Private equity	155,782		
1,098	0	0	Derivatives			
0	117,498	0	Cash		80,636	
	42,000		Other short term investments		60,000	
8,220	0	0	Other investment balances	4,739		
0	31,446	0	Debtors		37,121	
3,691,493	**190,944**	**0**	**Total financial assets**	**3,891,489**	**177,757**	
			Financial liabilities			
-1,142	0	0	Derivatives	-1		
-4,876	0	0	Other investment balances	-3393		
0	0	-7,559	Creditors			-11,296
0	0	0	Borrowings			
-6,018	**0**	**-7,559**	**Total financial liabilities**	**-3394**		**-11,296**
3,685,518	**190,944**	**-7,559**		**3,888,095**	**177,757**	**-11,296**

Note 18b: Net gains and losses on financial instruments

31 March 2017 £000		31 March 2018 £000
	Financial Assets	
602,124	Designated at Fair Value through profit and loss	92,860
319	Loans and Receivables	5,802
	Financial Liabilities	
-60,490	Fair Value through profit and loss	0
0	Financial liabilities at amortised cost	0
541,953	**Total**	**98,662**

Note 18c: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data.

The fund’s private equity investments are valued using techniques that require significant judgement in determining appropriate assumptions. The value of the investments in private equity are based on valuations provided by the managers of the private equity funds in which the Surrey Pension Fund is invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets through profit & loss	3,510,908	209,388	223,545	3,943,841
Total financial assets	3,510,908	209,388	**223,545**	3,943,841
Financial liabilities				
Financial liabilities through profit & loss	0	-3,393	0	-3,393
Total financial liabilities	**0**	**-3,393**	**0**	**-3,393**
Net financial assets	**3,510,908**	**205,995**	**223,545**	**3,940,448**

31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets through profit & loss	3,322,216	172,746	195,477	3,690,439
Total financial assets	**3,322,216**	**172,746**	**195,477**	**3,690,439**
Financial liabilities				
Financial liabilities through profit & loss	-4,876	0	0	-4,876
Total financial liabilities	**-4,876**	**0**	**0**	**-4,876**
Net financial assets	**3,317,340**	**172,746**	**195,477**	**3,685,563**

Note 18c: Book cost

The book cost of all investments at 31 March 2018 is £3,055million (£2,760million at 31 March 2017).

Note 19: Outstanding commitments

At 31 March 2018 the Fund held part paid investments on which the liability for future calls amounted to £127.0million (£89million as at 31 March 2017).

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis

PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2017/18 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2018 £000	Change	Value on increase £000	Value on decrease £000
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	601,208	4.38%	627,541	574,875
Cash	80,636	0.03%	83,055	78,217
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,747	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	3,585	3,585
Total Investment Assets	4,030,021	6.01%	4,324,298	3,737,644

Asset type	Value at 31 March 2017 £000	Change	Value on increase £000	Value on decrease £000
UK equities	669,225	8.89%	728,704	609,746
Overseas equities	1,618,911	9.28%	1,769,124	1,468,698
Fixed interest bonds	383,930	5.95%	406,770	361,090
Index linked	199,371	8.89%	217,095	181,647
Cash	49,844	0.01%	49,849	49,839
Other short term investments	42,000	0.01%	42,004	41,996
Property	275,367	1.96%	280,764	269,970
Alternatives	145,113	6.96%	155,213	135,013
Diversified growth fund	390,257	3.84%	405,229	375,285
Other assets	3,299	0.01%	3,585	3,585
Total Investment Assets	3,777,317	5.98%	4,058,337	3,496,869

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2017 £000		As at 31 March 2018 £000
49,844	Cash & cash equivalents	80,636
42,000	Other short term investments	60,000
383,930	Fixed interest securities	396,093
475,774	**Total**	**536,729**

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2018	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	80,636	81	-81
Other short term investments	60,000	60	-60
Fixed interest securities	396,093	396	-396
Total	**536,729**	**537**	**-537**

Asset type	Carrying amount as at 31 March 2017	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	49,844	50	-50
Other short term investments	42,000	42	-42
Fixed interest securities	383,930	384	-384
Total	**475,774**	**476**	**-476**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

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Currency risk – sensitivity analysis

PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2017/18 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2018 £000	% Change	Value on increase £000	Value on decrease £000
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
Total	1,850,582	4.93%	1,941,842	1,759,322

For comparison last year figures are included below.

Asset type	Value at 31 March 2017 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,141,725	8.2%	1,235,371	1,048,079
Fixed interest	229,245	8.2%	248,048	210,442
Property and Private Equity	131,522	8.2%	142,310	120,734
Diversified Growth	390,257	8.2%	422,267	358,247
Cash and Other Assets	38,880	8.2%	42,069	35,691
Total	1,931,629	8.2%	2,090,065	1,773,193

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund’s financial assets and liabilities.

In essence the fund’s entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has agreed a total of £60m in short fixed term deposits as part of the treasury management strategy; these include £60 million of fixed term deposits with other Local Authorities.

Fixed Term Deposits	**No. of days**	**Balance at 31 March 2018 £000**
Leeds City Council	141	10,000
London Borough of Barking & Dagenham	91	5,000
Eastleigh Borough Council	89	5,000
Eastleigh Borough Council	90	5,000
Plymouth City Council	92	5,000
Leeds City Council	91	10,000
Woking Borough Council	120	5,000
Thurrock Council	120	5,000
Glasgow	94	10,000
Other short term investments		**60,000**

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

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Balance at 31 March 2017 £000		Balance at 31 March 2018 £000
	Term Deposits	
	Nationwide	0
	Call account	
	Natwest	0
0	Lloyds	20,000
	Money market fund	
490	Goldman Sachs	4,000
25,000	Aberdeen MMF	5,500
	Current account	
586	HSBC	64
26,076	**Internally Managed Cash**	**29,564**
91,422	Externally Managed Cash	51,072
117,498	**Total Cash**	**80,636**

The fund's cash holding under its treasury management arrangements as at 31 March 2018 was £29.6million (£26.0million at 31 March 2017).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2016/17 or 2017/18

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2017/18 amounted to £62,796k (£67,508k in 2016/17).

2016/2017 £000		**2017/2018 £000**
44,261	Employers' current service contributions	41,031
22,351	Lump sum payments to recover the deficit in respect of past service	21,287
896	Payments into the fund to recover the additional cost of early retirement liabilities	479
67,508		**62,796**

ii) Surrey Pension Fund paid Surrey County Council £1,847k for services provided in 2017/18 (£1,508k in 2016/17).

2016/2017 £000		**2017/2018 £000**
258	Treasury management, accounting and managerial services	221
1,250	Pension administration services	1,626
1,508		**1,847**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2018 were £5,218k (£5,621k at 31 March 2017).

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund. From 2nd October 2017 The Treasury Team had been separated as a function from the Pensions Team which had an effect on the time Key Management allocated to the Pension Fund.

2016/17 £	**Position**	**2017/18 £**	
22,859	Chief Finance Officer	24,109	1
75,795	Head of Pensions	80,681	2
47,139	Senior Specialist Advisor	25,398	2
55,545	Senior Accountant	49,059	3
201,338		**179,247**	

2016/17	Oct 2017 - Onwards
1. 15% of time allocated to pension fund	1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund	2. 100% of time allocated to pension fund
3. 100% of time allocated to pension fund	2. 100% of time allocated to pension fund

Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund’s private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	**Custody Provider**
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York

Note 24 : Actuarial statement for 2017/18 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), approved March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

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Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2016 valuation report.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.1 years	26.4 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016
Since the last formal valuation, the Fund has achieved strong asset returns, particularly during 2016/17. This will have improved the funding position at 31 March 2018.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay FFA
For and on behalf of Hymans Robertson LLP
10 May 201823 July 2018

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2017/18 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund (“the Fund”).

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund’s funding assumptions.

Present value of promised retirement benefits

Year ended	31/03/2018	31/03/2017
Active members (£m)	2,559	2,335
Deferred members (£m)	1,359	1,370
Pensioners (£m)	1,921	2,005
	5,839	**5,710**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

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The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £112m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.7%	2.7%
Discount Rate	2.7%	2.6%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	474
0.5% p.a. increase in the Salary Increase Rate	1%	76
0.5% p.a. decrease in the Real Discount Rate	10%	582

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2018 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA (For and on behalf of Hymans Robertson LLP)

10 May 2018

Note 26: Additional Voluntary Contributions

Market Value 2016/17 £000	Position	Market Value 2017/18 £000
12,401	Prudential	13,621
12,401		**13,621**

Additional Voluntary Contributions, net of returned payments, of £2.8million were paid directly to Prudential during the year (£2.7million during 2016/17).

Note 27: Investment Strategy Statement

Full details of the fund's investment policy are documented in the Investment Strategy Statement. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 28: Annual report

The Surrey Pension Fund Annual Report 2017/2018 provides further details on the management, investment performance and governance of the Fund.

Audit Findings

Year ending 31 March 2018

Surrey Pension Fund

July 2018

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Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Surrey Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	Our audit work was completed on site during June and July. Our findings are summarised in this report. We have not identified any adjustments to the financial statements that have resulted in a change to the Fund's reported financial position. Audit adjustments which relate to disclosures and classification errors are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 26 July 2018. These outstanding items include: - final internal quality review - receipt of the management representation letter; and - review of the final set of financial statements.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

- This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- We brought forward controls testing of the scheme contributions, and carried out controls testing of member data and the benefit payment systems; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 26 July 2018.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our planning materiality was based on 1% of your net assets in the 2016/17 financial statements.

Our assessment of the value of materiality has been adjusted to reflect 1% of your net assets in the draft financial statements 2017/18. We detail in the table below our assessment of materiality for Surrey Pension Fund.

	Amount (£)
Materiality for the financial statements	38,689,000
Performance materiality	23,213,000
Trivial matters	1,934,450

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: – 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 as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Surrey Pension Fund.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • Summary of work performed and audit findings: – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness – obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness – evaluated the rationale for any changes in accounting policies or significant unusual transactions Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Commentary
3 **The valuation of Level 3 investments is incorrect** **Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.** **We identified the valuation of level 3 investments as a risk requiring special audit consideration.**	**Auditor commentary** Summary of work performed and audit findings: – gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls – reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments – for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2017 with reference to known movements in the intervening period. Our audit work has not identified any issues in respect of the valuation of Level 3 investments.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
4	**Contributions** Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention	**Auditor commentary** Summary of work performed and audit findings: – evaluated the Fund's accounting policy for recognition of contributions for appropriateness; – gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls; – performed a trend analysis of scheme contributions across the year to assess the completeness of scheme contributions – tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; – rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained. Our audit work has not identified any issues in respect of contributions
5	**Pension Benefits Payable** Pension benefits payable represents a significant percentage of the Fund's expenditure. We identified completeness of pension benefits payable as a risk requiring particular audit attention:	**Auditor commentary** Summary of work performed and audit findings: – evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; – gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls; – performed a trend analysis of benefit payments across the year to assess the completeness of benefit payments – tested a sample of individual pensions in payment by reference to member files; – rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. Our audit work has not identified any issues in respect of pension benefits payable

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
6 **The valuation of Level 2 investments is incorrect** While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We identified valuation of level 2 investments as a risk requiring particular audit attention.	**Auditor commentary** Summary of work performed and audit findings: – gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls. – reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Funds' own records and sought explanations for any variances – where deemed necessary for additional assurance, we tested a sample of level 2 investment prices from the custodian / fund manager to independently obtained prices. Our audit work has not identified any issues in respect of the valuation of Level 2 investments

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The financial statements include policies for recognition of the following: • Investment income • Contribution income • Transfers into the scheme Revenue for the first two categories is recognised on an accruals basis, whilst the third category is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.	• Review of your polices for revenue recognition confirms they are in line with the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activates. • Our testing has confirmed that these policies have been correctly and consistently applied.	●
Judgements and estimates	• Key estimates and judgements include: – Valuation of level 3 investments – The assumptions made by your actuary	We identified the valuation of level 3 investments as a significant risks and have reported to you earlier in this report the work we have carried out to reduce the risk of a material misstatement in the financial statements to an acceptable level. We tested the assumptions made by your actuary by using our own auditor expert and following up local areas which were not covered by this review, such as completeness of information sent to your actuary. We are satisfied that the assumptions made by your actuary are reasonable.	●
Other critical policies		We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.	●

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Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with management and the Chair of the Audit & Governance Committee. We have not been made aware of any material fraud in the period and no material fraud has been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Pension Fund
5	**Confirmation requests from third parties**	• We requested permission from management to send a confirmation request to HSBC. This permission was granted and the requests were sent and returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the financial statements
7	**Significant difficulties**	• Draft financial statements provided for audit and uploaded to Surrey County Council's website were not of sufficient quality, a significant number of figures were rolled forward form the prior year and had not been updated for 2017/18. • The original working papers provided to the audit team did not agree to the financial statements and key working papers were missing form the requested list. • Delay in receiving key supporting information, for example the trial balance, full journal listing and payroll information • Delays in the pensions admin team responding to audit queries, including delays in receiving the MSATEMP report which details the pensioners numbers that are included in the accounts. • We were initially told there were no new fund managers in the year, however upon completing work in the investments section we discovered there was a new private equity manager (Pantheon), which delayed the sending and receipt of the confirmation letter. • There were six versions of the accounts since draft due to the number of changes required.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2018 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Action plan

We have identified w o recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations w ith management and w e w ill report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that w e have identified during the course of our audit and that w e have concluded are of sufficient importance to merit being reported to you in accordance w ith auditing standards.

	Assessment	Issue and risk	Recommendations
1	Medium	• New starter members - Not all members received letters to inform them of their enrolment to their pension scheme. This has been an issue since approximately July 2017. This process is to be started again due to new processes and procedures being in place.	• Ensure new starters receive notification of their enrolment into the scheme **Management response** • The administration team is recruiting additional pensions administrators w ho w ould deal w ith this area of w ork, this w ould mean that backlogs w ould not build up and new scheme joiners w ould receive their notifications w ithin the prescribed disclosure timeframes. • The new Customer and Service Improvement Officer is currently review ing the New Starter process to ensure any w aste is removed and the result is a more efficient process. This in turn w ill improve the service w e provide to new scheme joiners.
2	Medium	• Leavers (members) - only 10 of the 25 leavers sampled had the expected documents (equite form and LG5.24 form) attached to their profiles. Therefore 15 people had no clear audit trail as to w hy they had been set as a leaver on the system.	• There should be a clear protocol to be follow ed by pension operations colleagues to ensure there is a clear audit trails as to w hy a member has been set as a leaver **Management response** • The administration team is recruiting additional pensions administrators w ho w ould deal w ith this area of w ork, this w ould mean that administrators have the capacity to scan paperw ork to member records at the time of processing the cases. • The administration team also trialling iConnect softw are system shortly w hich w ill allow scheme employers to upload data directly to the Altair system therefore removing the need to send forms that require scanning to member records.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no misstatements which impact on the key statements and the reported net expenditure for the year.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Fund account: Change in market value of investments	Prior year adjustment had not been correctly recorded in the change in market value of investment line in the pension fund account.	✓
Note 13: Current liabilities	On version 5 of accounts, the analysis of current liabilities was incorrectly stated in the note.	✓
Note 17a 2017 disclosures	2017 note did not agree to prior year signed accounts, has since been updated and agrees.	✓
Note 17d	Market Value of Darwin investment was not correctly updated for the prior year audit adjustment in the note.	✓
Note 18a: Classification of financial instruments	Bank figures as at 31 March did not agree to bank figure in the note; note was incorrect.	✓
Note 18b: Net gains and losses on financial instruments	Financial Assets were incorrectly classified as liabilities in the draft note.	✓
Note 18c	2017 split of level 1, 2 and 3 investments did not agree to prior year signed accounts.	✓
Note 19: Outstanding commitment	The value of 207/18 outstanding commitments was incorrectly stated in the note.	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	27,105	TBC
Total audit fees (excluding VAT)	**£27,105**	**£TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The final fee is pending agreement of fee variations by PSAA.

Grant Thornton

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SURREY
COUNTY COUNCIL

Our Ref
Your Ref: SLGPS LoR 2017-18

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

26 July 2018

Dear Sirs

Surrey pension Fund
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Surrey Pension Fund ('the Fund) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent
b none of the assets of the Council has been assigned, pledged or mortgaged
c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x We have considered the misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

xv We have communicated to you all deficiencies in internal control of which management is aware.

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xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit and Governance Committee at its meeting on 26 July 2018.

Yours faithfully

Name................................

Position..............................

Date................................

Name................................

Position..............................

Date................................

Signed on behalf of Surrey County Council as administering body of Surrey Pension Fund