



# The Audit Plan for Surrey County Council

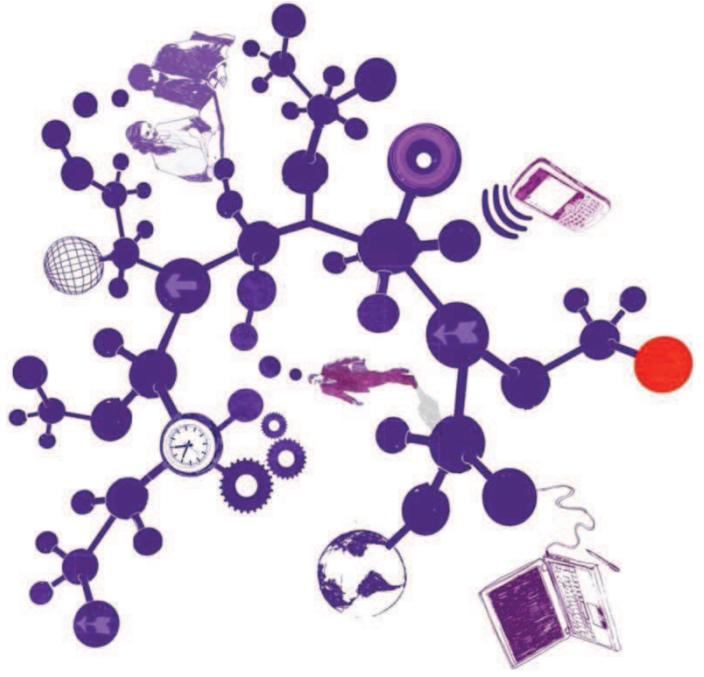
**Year ended 31 March 2014**  
24 Mar 2014

**Andy Mack**  
Engagement Lead  
T 0207 728 3299  
E [Andy.L.Mack@uk.gt.com](mailto:Andy.L.Mack@uk.gt.com)

**Daniel Woodcock**  
Assistant Manager  
T 01293 554 122  
E [Daniel.Woodcock@uk.gt.com](mailto:Daniel.Woodcock@uk.gt.com)

**Kathryn Sharp**  
Senior Manager  
T 01293 554 086  
E [Kathryn.E.Sharp@uk.gt.com](mailto:Kathryn.E.Sharp@uk.gt.com)

**Rajiv Bissessar**  
Audit Executive  
T 020 7728 2458  
E [Rajiv.Bissessar@uk.gt.com](mailto:Rajiv.Bissessar@uk.gt.com)



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

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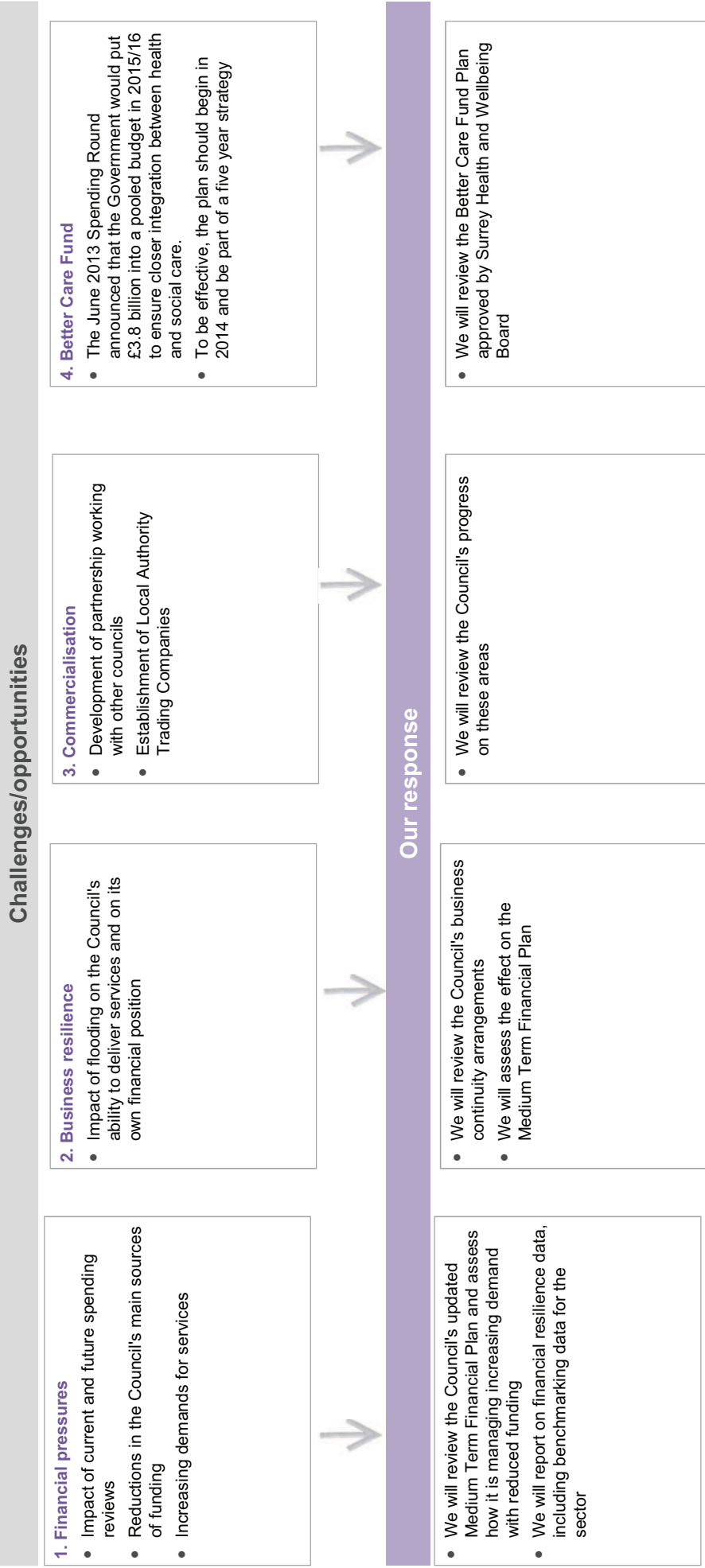
# Contents

## **Section**

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of planning audit work
8. Planned interim audit work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

# Understanding your business

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



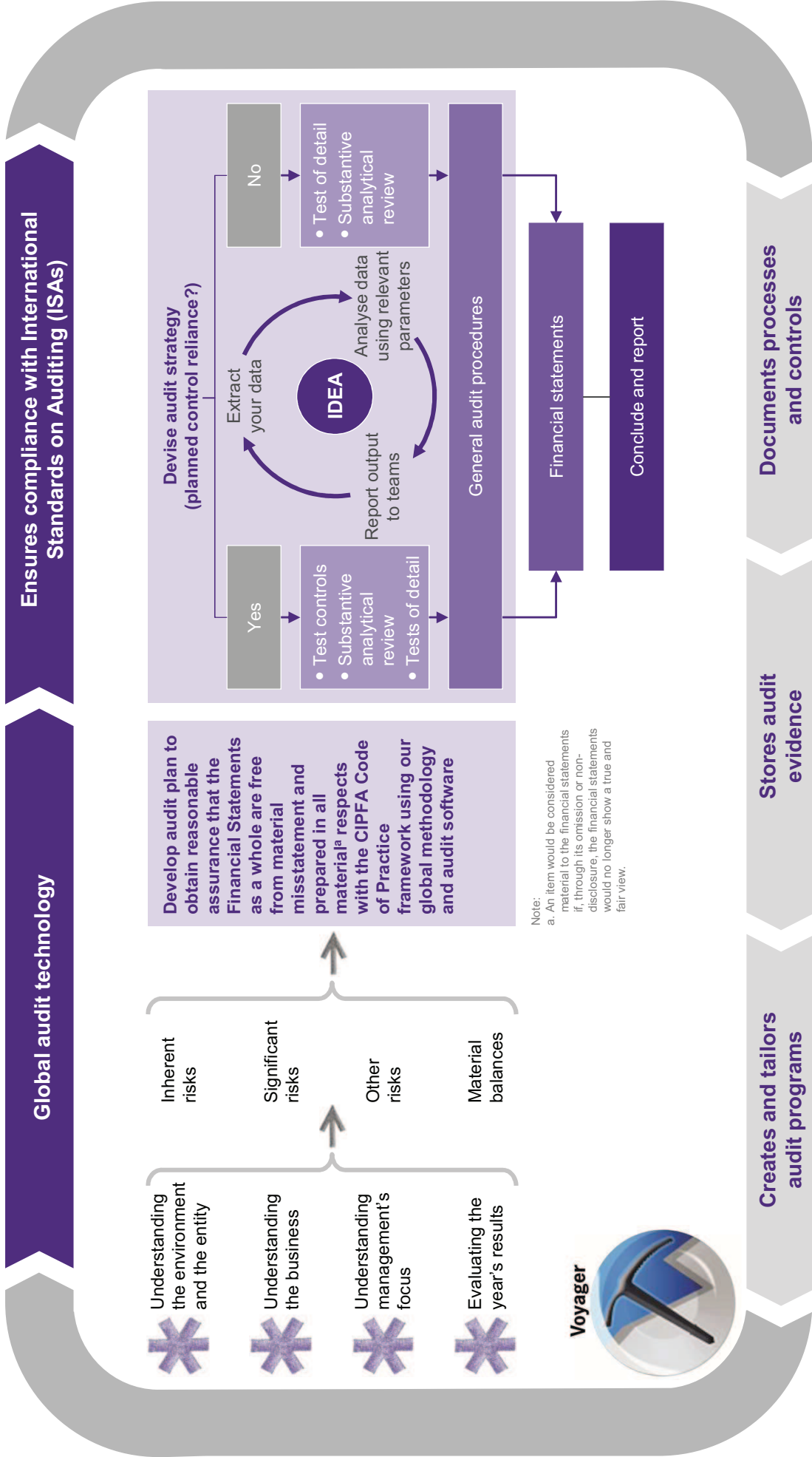
# Developments relevant to your business and the audit

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

Developments and other requirements			
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Clarification of Code requirements around PPE valuations</li> <li>Changes to NDR accounting and provisions for business rate appeals</li> <li>Transfer of assets to Academies</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> <li>Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>The impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)</li> </ul>
	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>	

Our response	
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>
<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>
<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>

# Our audit approach



## Significant risks identified

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

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review and testing of revenue recognition policies</li> <li>Testing of material revenue streams</li> </ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management</li> <li>Testing of journal entries</li> <li>Review of unusual significant transactions</li> </ul>

## Other risks identified

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

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

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	Identification and walkthrough of controls	Testing of payments for completeness, classification and occurrence
Employee remuneration	Employee remuneration accrual understated	Identification and walkthrough of controls	Attribute and / or substantive testing of payroll records
Property, Plant & Equipment	PPE activity not valid	Identification and walkthrough of controls	Substantive testing of additions in year
Property, Plant & Equipment	Revaluation measurement not correct	Identification and walkthrough of controls	Substantive testing of revaluations in year



# Value for money

## Value for money

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

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

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

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

- Follow up the progress the Council has made in implementing the recommendations raised in our 2012/13 Financial Resilience Report
- Review the revised Medium Term Financial Plan in the light of the Local Government finance settlement
- Review the Better Care Fund plan for Surrey
- Review the Council's value for money assessment of its Waste PFI scheme

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will issue a separate report in respect of VfM with detailed findings.

## Results of planning audit work

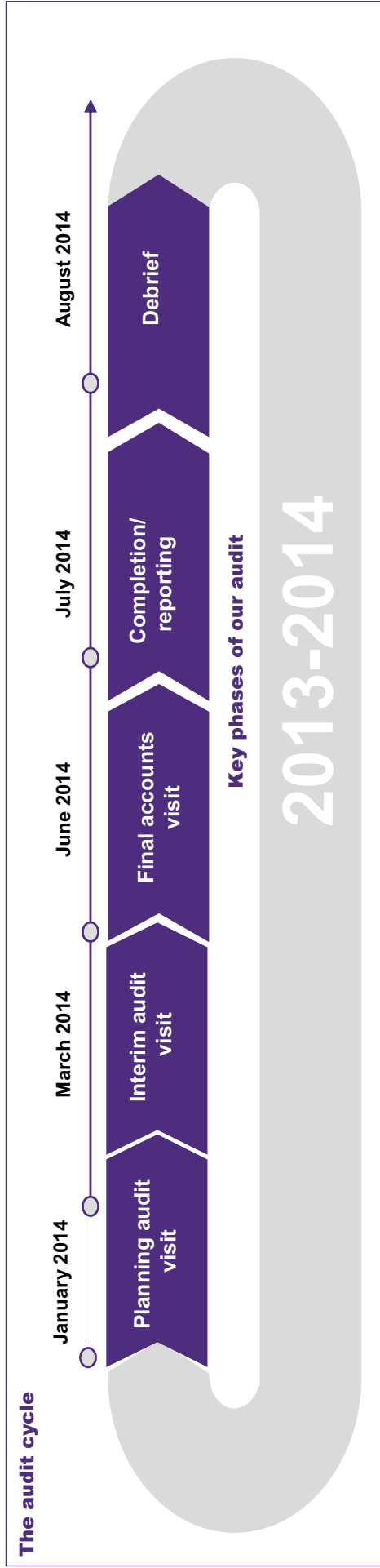
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Streamlining and decluttering</b>	<p>We have worked with your finance team on streamlining your accounts preparation process, including reducing any extraneous detail (decluttering) in the financial statements.</p> <p>Once the Audit and Governance Committee have reviewed the proposed decluttering of the financial statements we will continue to work with the finance team on improving the financial statements.</p> <p>We presented to a finance team 'Lunch and Learn' session on audit requirements and working papers.</p>	<p>The Council's closedown plan and our audit timetable have been condensed to enable audited financial statements to be presented to the Audit and Governance Committee on 31 July 2014.</p>

## Planned interim audit work

	<b>Work to be performed</b>
<b>Review of information technology controls</b>	Our information systems specialist will carry out a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also follow up the minor control recommendations that were raised last year.
<b>Journal entry controls</b>	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>We will undertake detailed testing on journal transactions recorded for the first eleven months of the financial year, by extracting 'unusual' entries for further review.</p>
<b>Early substantive testing</b>	<p>We will carry out early substantive testing of the following areas</p> <ul style="list-style-type: none"> <li>• Operating expenses</li> <li>• Employee remuneration</li> <li>• Waste PFI operator's and accounting models</li> <li>• Additions to property, plant and equipment</li> <li>• Related party transactions</li> <li>• Investment properties</li> <li>• Holiday pay accrual</li> <li>• Opening balances testing</li> </ul>
<b>Value for money</b>	<p>We will review the progress that the Council has made in implementing the recommendations we raised in our 2012/13 Financial Resilience Report.</p> <p>We will carry out a desk top review of the Council's Better Care Fund Plan.</p>

# Key dates



Date	Activity
January 2014	Planning audit visit
March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit and Governance Committee
June - July 2014	Year end fieldwork
July 2014	Audit findings clearance meeting with Chief Finance Officer
July 2014	Report audit findings to those charged with governance
July 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	189,464
Grant certification	4,700
<b>Total fees (excluding VAT)</b>	<b>194,164</b>

## Fees for other services

Service	Fees £ (excluding VAT)
Review of VAT treatment of adult social services	1,500

## Our fee assumptions include:

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

## Independence and ethics

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

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

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

## Communication of audit matters with those charged with governance

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

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

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

### Respective responsibilities

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

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

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

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

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



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