



The Audit Findings Report for Surrey County Council

DRAFT

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

Year ended 31 March 2014

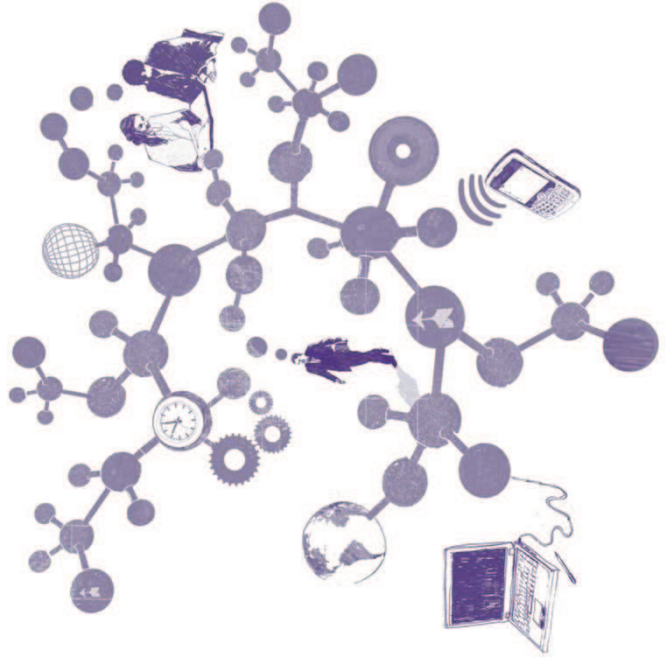
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is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

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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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Surrey County Council's (the Council) financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 24 March 2014

Our audit is nearing completion. We are finalising our procedures in the following areas:

- receipt and review of the final version of the financial statements
- receipt and review of the final versions of the Annual Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- final senior audit management and quality reviews

We received draft financial statements and accompanying working papers at the start of our audit (2 June 2014) in accordance with the agreed timetable. This was considerably earlier than in previous years.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

There is one adjustment affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of £204,190k; the audited financial statements show net expenditure of £203,285k. This change was identified by the Council before the audit started and was caused by the Billing Authorities not providing Collection Fund information to the agreed schedule. We have also identified a number of adjustments to improve the presentation of the financial statements. Most of these related to the changes arising from the update to IAS 19 (Employee Benefits), which took effect from 1 April 2013.

Executive summary

The key messages arising from our audit of the Council's financial statements are that the Council:

- produced draft statements to a good standard
- needs to ensure that all services are committed to achieving the early sign-off timetable
- needs to ensure the quality of working papers is retained when working to a shorter deadline.

Further details are set out in section 2 of this report.

Value for Money (VfM) conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgment

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.

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
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- 05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 24 March 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 March 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

We will not be in a position to issue our certificate certifying completion of our audit until we have undertaken the work required by the National Audit Office on your Whole of Government Accounts. This will be completed by the deadline of 3 October 2014.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<ul style="list-style-type: none"> • Our audit work has not identified any issues in respect of revenue recognition. • The initial working papers provided to support the revenue figures did not agree to the financial statements. This was caused by specific issues when exporting data from SAP to Excel. The Council is investigating possible solutions . • The Council has added specific accounting policies on revenue from Council Tax and National Non Domestic Rates.
2.	<p>Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<ul style="list-style-type: none"> • Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. • We note that following a business efficiency review two years ago, journals are no longer independently authorised. Management gains assurance over the appropriateness of journals through running regular system reports. • We set out later in this section of the report our work and findings on key accounting estimates and judgments.



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively Substantively tested operating expenses 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively Substantively tested payroll outputs, including teachers' pensions Considered the impact of the changes to the Code of Practice requirements 	Our audit work has not identified any significant issues in relation to the risk identified. We proposed amendments to the Council's IAS 19 disclosures to meet the updated requirements, and these are reflected in the revised financial statements.

Audit findings against other risks continued



In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantively tested additions, disposals and reclassifications, including investment properties 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>One error (£2.7 million) was identified in relation to the incorrect calculation of depreciation on infrastructure assets. This error is immaterial to the financial statements and will be corrected by the Council in 2014/15.</p>
Property, plant & equipment	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantively tested the revaluations, including consideration of the changes to the Code of Practice 	<p>The Council has not fully followed the Code requirements on Property, Plant and Equipment revaluations since not all of the asset class is revalued within one accounting period. It has provided evidence to demonstrate that the carrying value of those assets not revalued in year does not differ materially from the fair value at the balance sheet date. We have also requested specific management representation on the valuation of Property, Plant and Equipment.</p>

Audit findings

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.


Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes the delivery of a service. 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: <ol style="list-style-type: none"> the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. 	<ul style="list-style-type: none"> Following amendments identified through the audit process, the accounting policies are adequately disclosed in line with the requirements of the Code. Our testing of government grants and contributions did not identify any instances of inappropriate revenue recognition. 	 <p>GREEN</p>
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> We proposed improvements to the Council's other accounting policies, which are reflected in the revised financial statements. 	 <p>GREEN</p>

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient
-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p> <ul style="list-style-type: none"> • Critical judgements include: <ul style="list-style-type: none"> - the recognition of grants and contributions - the accounting treatment of the Council's PFI scheme - whether group accounts should be prepared • Key estimates include: <ul style="list-style-type: none"> - the useful lives of property, plant and equipment - provisions - pension liability - provision for the impairment of receivables 	<ul style="list-style-type: none"> • Critical judgements and estimation uncertainties are disclosed in Notes 3 and 4 of the financial statements and are in line with the requirements of the Code. • The Council entered into a PFI contract for waste disposal in 1999. As at 31 March 2014 it had received £124.1 million in PFI credits, and in return has an obligation to invest in waste disposal infrastructure. Planning permission and the environmental licence for the Eco Park are still awaited and therefore a large proportion of this obligation has yet to be delivered. As such the Council has disclosed a contingent liability of £124.1 million in respect of potential repayment of PFI credits received to date. It has not made a provision in the accounts for any repayment of PFI credits as officers are of the view that the possibility of any form of repayment being required is too remote. • We have reviewed the most recent communications from DEFRA in respect of the Council's PFI credits and are satisfied that there are no indications at present that these will have to be repaid. • During 2013/14 the Council undertook a review of its potential liabilities in respect of closed landfill sites. As a result of this the Council made a provision of £700k and a maximum potential contingent liability of £3.3m. • Having reviewed the transactions and balances of the Henrietta Parker Centre, S.E. Business Services Ltd and Surrey Choices Ltd and the Council has determined that they are not material to the single entity financial statements and has therefore not prepared group accounts. 	 GREEN	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient



Audit findings

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 The Council had not received Council Tax and Business Rate returns from the majority of Surrey District and Borough Councils at the time of preparing the draft accounts and could therefore not process the Collection Fund Adjustment at that time.	(905)	905	(905)
Overall impact	(905)	905	(905)

Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	9,000	Contingent Liabilities	During the course of the audit the Council identified that it had incorrectly accounted for pre-2006 Fire Fighters' injury benefit payments as expenditure within the Fire Fighters' Pension Fund, instead of charging the costs to Fire Services within the Comprehensive Income and Expenditure Account. This means that it had been over-claiming the Fire Fighters' Pension Fund top-up grant receivable from the Department of Communities and Local Government. The Council has contacted the Department, but has yet to receive confirmation of if, how, or when the overpayment will be recovered. It has therefore included its estimate of the overpayment as a contingent liability.
2 Disclosure	289,118	Carrying value of PFI liabilities	During our testing of the Council's financial liabilities in Note 15 it was identified that the carrying value had been overstated as a result of a typing error and should be disclosed as £289,118k instead of £265,118k. The amended value is reflected in the revised accounts.
3 Disclosure	27	Exit Packages	One disclosure was found to be in the incorrect banding since payment for loss of office was not included.

A number of other presentational adjustments were agreed with the Council to improve the financial statement disclosures.

Audit findings

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 Incorrect calculation of depreciation on infrastructure assets	(2,715)	2,715	Immaterial to the financial statements and to be corrected in 2014/15.
Overall impact	(2,715)	2,715	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● AMBER	The Council has not fully followed the Code requirements on Property, Plant and Equipment revaluations since not all of the asset class is revalued within one accounting period.	The Council should review its revaluation methodology to ensure that Property, Plant and Equipment remains fairly stated.
2.	● AMBER	The Council currently reconciles the opening net book value of Property, Plant and Equipment rather than the opening gross values and accumulated depreciation.	The Council should prepare an annual reconciliation between the general ledger and the fixed asset register of the opening gross values and opening accumulated depreciation of Property, Plant and Equipment.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

Issue	Commentary
1. Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any significant fraud issues. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2. Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3. Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management for not amending the financial statements for the items identified on page 16.
4. Disclosures	<ul style="list-style-type: none"> Our review found some areas where disclosures could be improved to comply fully with the requirements of the Code. These amendments are reflected in the revised financial statements.
5. Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6. Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience.

The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit

Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted one area of significant risk:

- Arrangements for project managing and profiling capital expenditure.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed the following reviews:

- Prioritising resources; and
- Understanding costs

Overall our work highlighted no areas of significant risk.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below summarises our overall rating for each of the themes reviewed. Detailed findings can be found in our Value for Money Report.

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	<p>The Council achieved an underspend of £6.9m against its revenue budget in 2013/14, but underspent by £6m on its capital budget of £230m. For 2013/14 the Council had a savings target of £68.3m against which £62.3m was achieved, a shortfall of £6m, which was met through countervailing savings.</p> <p>As at 31 March 2014 the Council has net liabilities of £244m (net liabilities of £39m as at 31 March 2013 and net assets of £70m as at 31 March 2012).</p> <p>The Billing Authorities acting on behalf of the Council achieved a Council Tax collection rate of 98.3% against a budget of 98.8%.</p> <p>As at March 2014 the average sickness absence was 6.44 days per FTE (7.2 days in 2012/13). This is below both the public sector and local government average, as well as now being similar to the private sector average.</p>	Green	Green
Strategic financial planning	<p>The total savings required for the period 2014/15 to 2018/19 are forecast to be £231m. Going forward the Council will need to continue to reassess its MTFP in light of the changes enacted by the Care Act 2014 and any implications from the Better Care Fund plans for Surrey. The Council has been required to significantly amend its capital projections for 2014/15 to 2018/19 due to the increasing number of schools places required (4,000 additional places are needed). This has led to a planned increase in capital expenditure on schools from £42m to £69m in 2013/14; and for 2014/15 capital investment in school places has increased from £81m to £105m. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school places capital programme.</p>	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	<p>The Council has improved scrutiny of its Local Authority Trading Companies. There are now two Boards in place - the Investment Advisory Board and Shareholder Board. Investments to date have been made under powers delegated to the Council under statute.</p> <p>The Council has made further improvements to financial understanding through making changes to strategic director roles, via network leadership where networks of senior managers, Cabinet members and experts are set up for each area.</p> <p>One area of particular good practice is the publication of an Annual Report that is designed specially for public use as soon as the Council's outturn position is known. For the first time in 2013/14 the Annual Report will include audited financial statements.</p>	Green	Green
Financial control	<p>The Council underspent by £6m against its capital budget of £230m, after including £38.4m spent on investment properties, which were not included in the original budget. The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March, due to the available interest rates. In 2013/14, the Council achieved recurrent savings of £62.3m against a target of £68.3m with countervailing savings covering the £6m remaining savings.</p>	Green	Green
Prioritising resources	<p>The Council has a sound understanding of the main risks it faces and these relate to erosion of the Council's main sources of funding, delivery of the major change programmes and associated efficiencies; delivery of the waste infrastructure; and changes to health commissioning.</p> <p>Information Governance is identified on the Leadership risk register as a high risk and a recent audit suggests that significant further work is required to raise awareness of the risks across the organisation. Whilst the Council has identified mitigating actions through the action plan, these will not come into effect until 2014/15 and thus this area remains a high risk to the Council.</p>	N/A	Green
Improving efficiency & productivity	<p>Cabinet receives monthly budget report on costs, demonstrating a high degree of understanding of costs at a service level within each directorate. The reports show a detailed breakdown each month detailing the reasons for a variation compared to budget and the achievement of efficiency savings</p> <p>The Council has not been the subject of any adverse OFSTED inspections during the year and DEFRA have continued in their support of the Waste PFI scheme, maintaining funding following an NAO review into DEFRA's procedures.</p>	N/A	Green
Management of natural resources	<p>The Council recognises that failure to deliver key waste targets (including key waste infrastructure, such as the Eco Park) will lead to increased cost to residents and tax payers and impacts on the environment. To address this risk it has increased resources in this area and project planning is monitored by the Waste Board</p>	N/A	Green

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<p>Arrangements for project managing and profiling capital expenditure</p>	<p>The Council underspent by £6m on its capital budget of £230m in 2013/14, having taken into account £38.4m spent on investment properties. The expenditure on investment properties was not included in the original budget, meaning that the underspend would otherwise have been £44.4m. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling. Furthermore, £11.7m of capital expenditure was postponed due to the adverse weather conditions. This compares to an overspend of £2.7m in 2012/13 and underspends of £43m in 2011/12 and £31.1m in 2010/11.</p> <p>Whilst the adverse weather conditions could not be predicted, the Council has made significant changes to the profiling of its capital expenditure since 2010/11, with the result that capital expenditure has been re-profiled to later in the Medium Term Financial Plan. In addition to this, higher than planned capital expenditure in March 2014 resulted in the Council choosing to borrow £24m to fund a short-term cash shortfall due to the interest rates available at the time.</p> <p>The Council needs to:</p> <ul style="list-style-type: none"> - ensure improved profiling of capital expenditure for budget setting - consider the effectiveness of project management arrangements - ensure cash flow impacts are understood and can be planned for. 	<p>Amber</p>



Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	189,464	189,464
Grant certification	4,700	0
Total audit fees	194,164	189,464

Although the Audit Commission no longer requires the Teachers' Pension Grant Claim to be certified, we are currently discussing the requirements in relation to this non-audit assurance work with the Teachers' Pension Authority.

Fees for other services

Service	Fees £
None	-

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.

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Review the revaluation methodology to ensure that Plant, Property and Equipment remains fairly stated.	Medium	An annual review of the appropriateness of our rolling 5 year revaluation schedule will be undertaken to ensure there is not a potential material misstatement in the carrying value of the non current assets of the Authority. However due to the costs associated with carrying out a full revaluation of the whole land and buildings asset class on an annual basis it is expected that there will be a continuation of the 5 year rolling programme (as allowed by the Code). The review will balance the Code requirement against the value for money and the impact on the reader based on materiality.	Finance Manager (Assets & Accounting) – Annually as part of the year end processes and accounting policy review
2	Prepare an annual reconciliation between the general ledger and the fixed asset register of the opening gross values and opening accumulated depreciation of Property, Plant and Equipment.	Medium	An annual reconciliation will be prepared from 2014/15 onwards alongside a justification of the 2013/14 balances.	Finance Manager (Assets & Accounting) By April 2015

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes and include the fire fighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Surrey County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Surrey County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

Delay in certification of completion of the audit

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

Andy Mack
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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July 2014





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