



The Audit Findings Report for Surrey County Council Pension Fund

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.

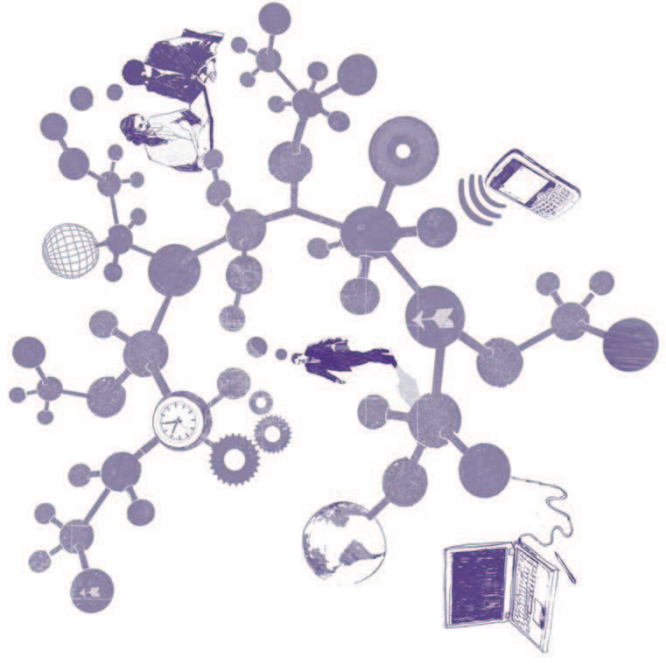
Year ended 31 March 2014

31 July 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 issues arising from the audit of Surry County Council Pension Fund's ('the Fund') 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 (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

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 May 2014.

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

Procedures nearing completion, subject to provision of evidence:

- finalising of our testing of investment balances, where we are awaiting third party confirmations
- finalising of our testing of purchases and sales, where are awaiting details from the custodian.

Procedures to be performed as part of audit closing procedures:

- receipt and review of the final version of the financial statements
- receipt and review of the final version 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, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

We have identified one adjustment affecting the Fund's reported financial position. The draft and unaudited financial statements recorded net assets carried forward of £2,803 million; the audited financial statements show net assets carried forward of £2,808 million. This change is a result of an amendment of investment market returns and the cash balance as set out in section two of this report. We have also agreed with officers, a small number of adjustments to improve the presentation of the financial statements.

Executive summary

Executive summary

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

- the financial statements provided to audit on 16 June 2014 were complete and prepared in accordance with the CIPFA's Code of Practice for Local Authority Accounting
- officers produced high quality working papers to support the financial statements and provided timely responses to audit queries
- officers agreed to amend the financial statements for all recommended accounting and disclosure changes we identified.

Acknowledgement

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

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Audit findings

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 29 May 2014. We also set out the adjustments to the financial statements 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.

Audit opinion

We anticipate that we will provide an unqualified opinion as set out in Appendix A.

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>Revenue Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Surrey County Council Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.</p>	<p>We rebutted this presumption and did not consider this to be a significant risk for Surrey County Council Pension Fund since:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
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 journals entries • review of unusual significant transactions 	<p>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.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>



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.

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
<p>Investments</p> <ul style="list-style-type: none"> • Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have reviewed the reconciliation between information provided by the fund managers, the custodians and the Pension Fund's own records and are satisfied with the explanations for any material variances. • We selected a sample of the individual investments held by the Fund at the year end and tested the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments). • We confirmed the existence of investments directly with independent custodian and/or fund managers. • We tested a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers. 	<p>During the audit one misstatement relating to investment market returns and cash balances was identified. This is set out on page 12.</p> <p>Subject to the satisfactory resolution and completion of outstanding matters set out on page 5 of this report, our audit work has not identified any other significant issues in relation to the risk identified.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Benefit Payments</p> <ul style="list-style-type: none"> • Benefits improperly computed/ liability understated 	<p>We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to the benefit calculation on their member file.</p> <ul style="list-style-type: none"> • We rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year. We did not identify any unusual trends. • We completed testing on transfers out and lump sum payments. • We compared the movements on membership statistics by reference to starters, leavers and changes in circumstances. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Contributions	<ul style="list-style-type: none"> Recorded contributions not correct 	<ul style="list-style-type: none"> We confirmed the existence of controls operated by the Pension Fund to ensure that it receives all expected contributions from member bodies. We rationalised contributions received with reference to changes in member body payrolls and number of contributing pensioners. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Member data	<ul style="list-style-type: none"> Member data not correct 	<ul style="list-style-type: none"> We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. We tested the key controls identified. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income to the fund is accounted for on an accruals basis 	<ul style="list-style-type: none"> The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. Accounting policies are adequately disclosed in the financial statements. 	●
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include; <ul style="list-style-type: none"> Investment valuation Promised value of future retirement benefits 	<ul style="list-style-type: none"> The policies adopted for accounting estimates are appropriate under the Fund's accounting framework Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. The level of judgement required by the Fund is low . Estimates used are generally supported by adequate working papers. Disclosure of accounting policies in the financial statements is in line with the recommended disclosures . 	●
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	●

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

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 in detail below along with the impact on the financial statements.

Detail	Fund Account £'000	Net Asset Statement £'000	Impact on net assets carried forward £'000
1 The Fund has amended investment market returns re-analysed and purchase and sales transactions following the identification of differences to fund manager confirmations. This has resulted in changes to the net assets statement, fund account and a number of other notes. The adjustment is: Change in Market Value of Investments Cash	(4,400)	4,400	4,400
Overall impact	£4,400	(£4,400)	£4,400

Misclassifications & disclosure changes

During the audit we identified a number of narrative presentation and disclosure items in the financial statements and recommended additional disclosures to enhance the presentation of the financial statements. All amended disclosures have been agreed and applied in the Pension Fund accounts.

There are no unadjusted misstatements.

Internal controls

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

Our audit included consideration of internal control 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.

From the work we completed we did not identify any significant weaknesses in internal controls.

Assessment

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

Audit findings

Other communication requirements

We set out below details of other matters which we, as auditors, 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. We have not been made aware of any 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 standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the 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 Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

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Fees, non audit services and independence

Fees, non audit services and independence

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

Fees	Per Audit plan £	Actual fees £
Fund audit	27,105	27,105
Total audit fees	27,105	27,105

Fees for other services	Fees £
Service	
None	Nil

Independence and ethics

We confirm 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 we are independent and are able to express an objective opinion on the financial statements.

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

Section 4: Future developments

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Developments relevant to your Pension Fund and the audit

Developments and other requirements	
<p>1. Financial reporting</p> <p>There are no significant emerging issues affecting the Pension Fund expected for the year ending 31 March 2014 although PRAG has formed a working party to update the Pensions SORP. An updated version is expected later in 2014.</p>	<p>2. LGPS 2014</p> <p>Planning for the impact of the implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014.</p>
<p>3. Triennial valuation</p> <p>Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.</p>	<p>4. Financial Pressures</p> <p>Pension Funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension Fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.</p>
Our response	
<p>1. Financial reporting</p> <p>We will carry out our usual substantive testing to ensure that the pension fund complies with the requirements of the CIPFA Code of Practice.</p>	<p>2. LGPS 2014</p> <p>We will discuss the impact of the changes through our regular meetings with management.</p> <p>Where appropriate, we will report any observations we have from our work and the implementation of new administration systems software to successfully process benefit payments under both the old and new schemes from 1 April 2014.</p>
<p>3. Triennial valuation</p> <p>We will maintain regular dialogue with management to assess the impact this has on the administration of the Pension Fund and any required disclosures in the 2013/14 pension fund financial statements.</p>	<p>4. Other issues</p> <p>We will monitor the changes being made to the Pension Fund investment strategy through our regular discussions with management.</p> <p>We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.</p>

Section 5: Communication of audit matters

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Communication of audit matters to 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.

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 Fund'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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund 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: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Surrey County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Surrey Pension Fund Account, the Net Assets Statement and the related notes. 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 Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 pension fund 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 fund'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 the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 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.

Darren Wells
Director

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

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July 2014



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