

# The Audit Plan for Surrey County Council

**Year ended 31 March 2015**

9 April 2015

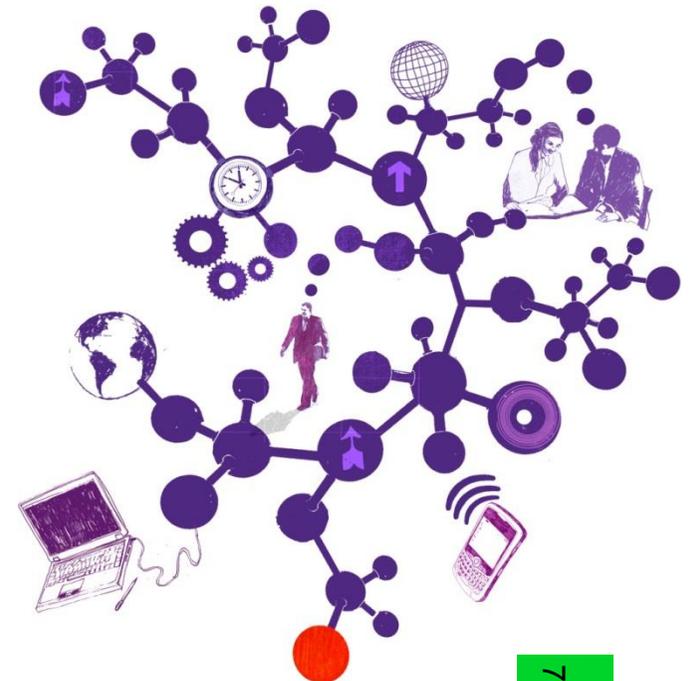
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# Contents

## Section

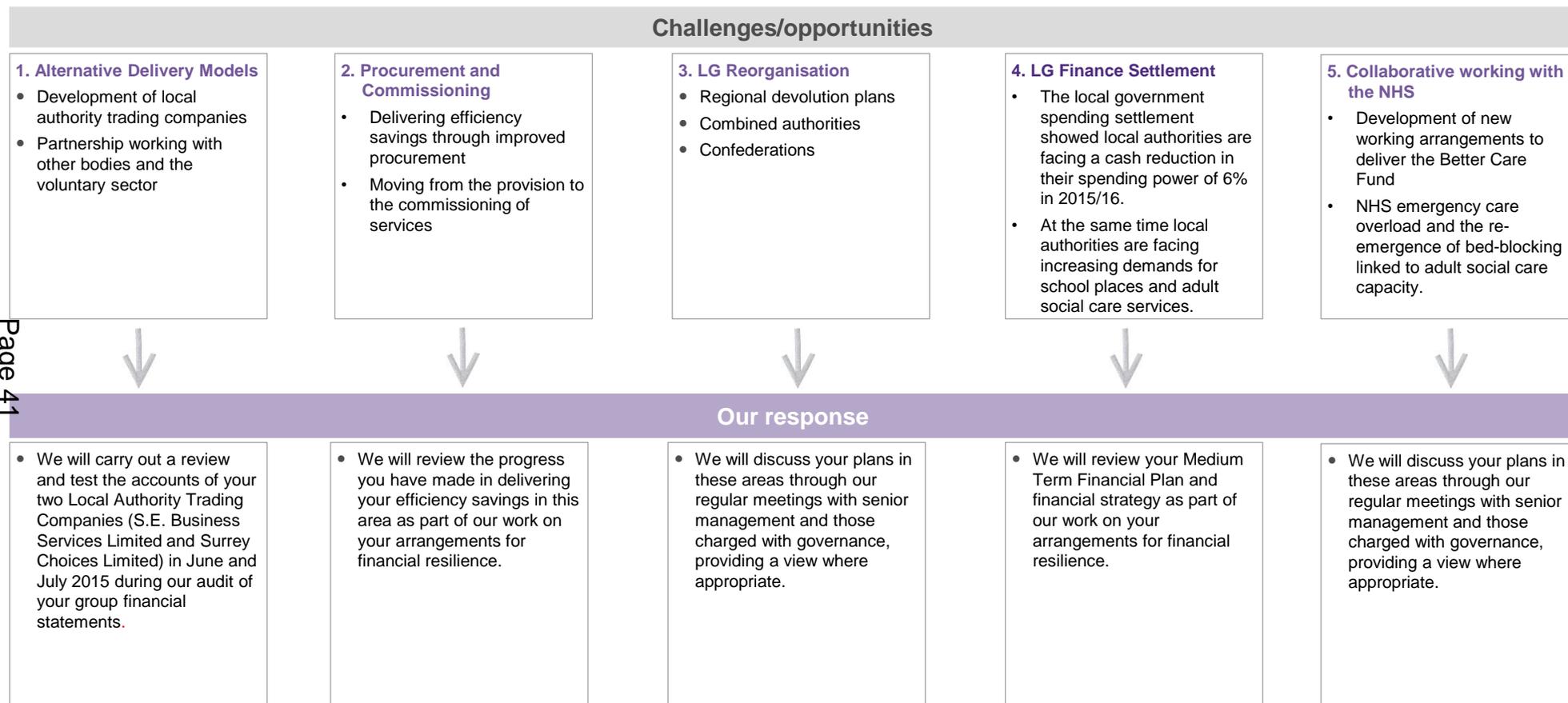
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

# Understanding your business

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



# Developments relevant to your business and the audit

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

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## Developments and other requirements

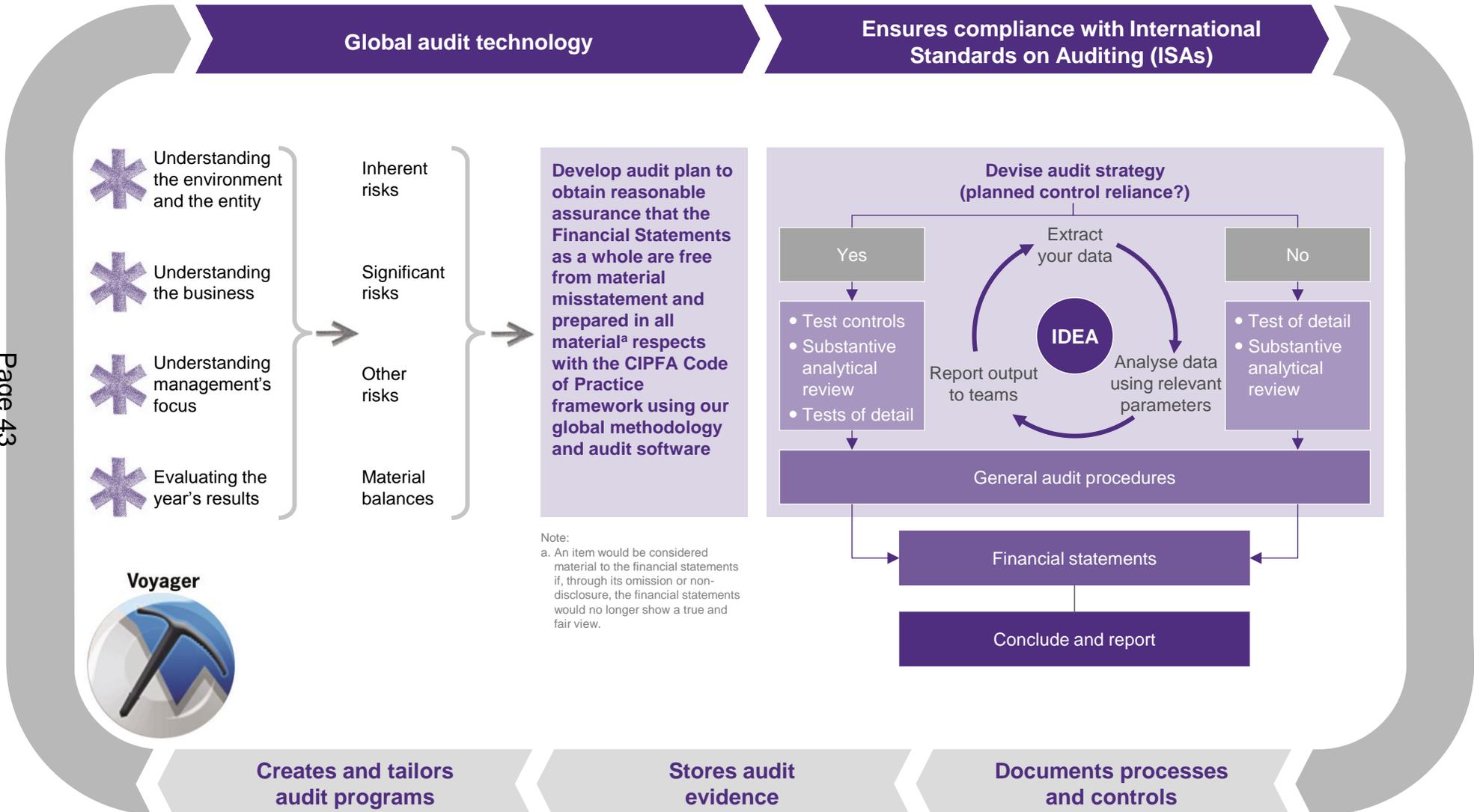
|   |  |   |  |  |   |
|---|--|---|--|--|---|
| <p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>Adoption of new group accounting standards (IFRS 10,11 and 12)</li> </ul> | <p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>Local Government Finance settlement</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. Better Care Fund</b></p> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</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 consider whether:</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice, through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</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 evaluate the impact of the Council's involvement in the BCF for our VfM conclusion.</li> </ul> | <ul style="list-style-type: none"> <li>We will review the Council's performance against the 2014/15 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 the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.</li> </ul> |
|---|--|--|---|--|---|

# Our audit approach

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# Significant risks identified

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

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

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

## Significant risks identified (continued)

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

## Significant risks identified (continued)

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

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

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# Group audit scope and risk assessment

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

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

# Value for money

## Value for money

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

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

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

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

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

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

# Results of interim audit work

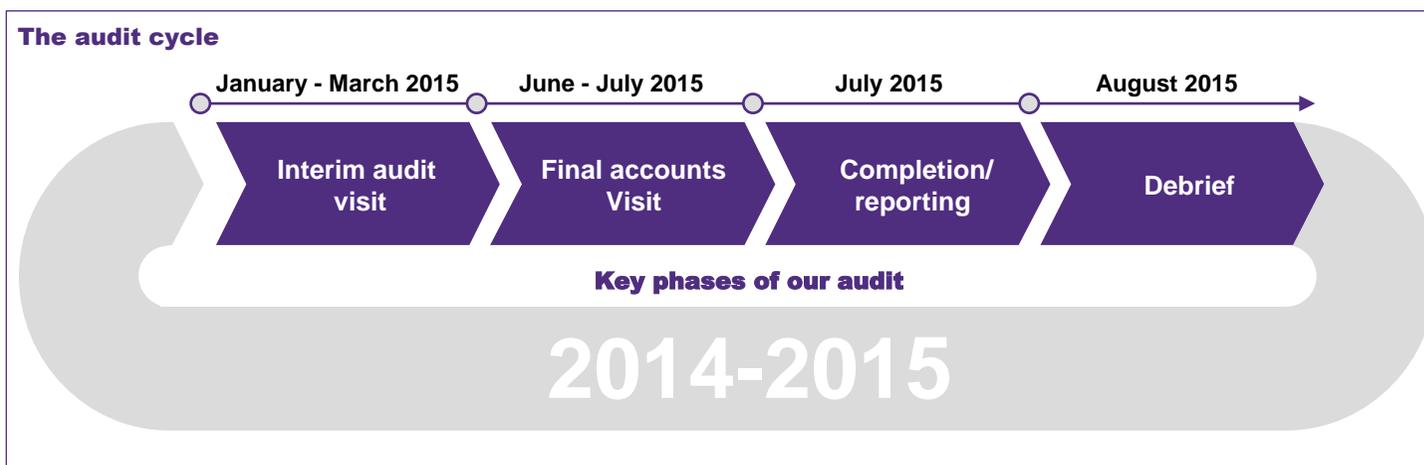
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

|                              | <b>Work performed and findings</b>   | <b>Conclusion</b>  |
|------------------------------|--|--|
| <b>Internal audit</b>        | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> | <p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p> |
| <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>Entity level controls</b> | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements.</p>   | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>  |

## Results of interim audit work (continued)

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

# Key dates



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

# Fees and independence

## Fees

|                                   | £              |
|-----------------------------------|----------------|
| Council audit                     | 189,464        |
| S.E. Business Services Limited    | TBC            |
| Surrey Choices Limited            | TBC            |
| <b>Total fees (excluding VAT)</b> | <b>189,464</b> |

## Our fee assumptions include:

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

## Grant certification

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

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

## Fees for other services

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

## Independence and ethics

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

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

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

# Communication of audit matters with those charged with governance

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

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

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

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## Respective responsibilities

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