

The Audit Findings for the Surrey County Council Pension Fund

Year ended 31 March 2015

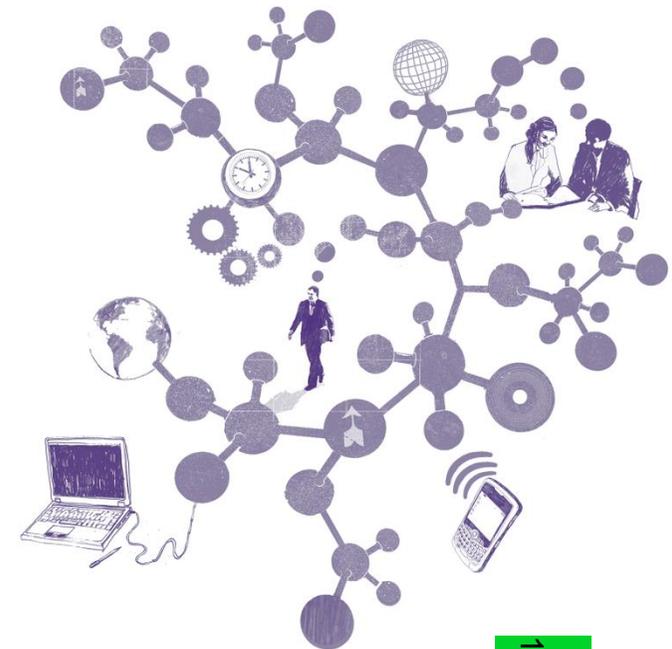
27 July 2015

Page 61
Page 121

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27 July 2015

Dear Councillor Selleck

Audit Findings for Surrey County Council Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of the Audit and Governance Committee (those charged with governance (for the Pension Fund)), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Darren Wells – Pension Fund Engagement Lead

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Fees, non-audit services and independence	17
4. Communication of audit matters	19

Appendices

- A Action plan
- B Audit opinion

Page 63
Page 123

Section 1: Executive summary

Page 124

Page 64

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non-audit services and independence
- 04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Surrey County Council Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 UK&I).

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 and 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.

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 March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of our testing on Investments, in particular work relating to the Fund's Private Equity Investments
- completion of our testing on the Contributions received by the Fund during the year
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the Pension Fund annual report.

We cannot formally conclude the audit and issue an audit certificate until we have completed our review of the Pension Fund Annual Report. We will review the Annual Report on completion and then issue a separate audit statement on the pension fund annual report together with our audit certificate.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

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

- the draft Pension Fund Financial Statements were received on the 9th of June, two working days later than the main Statements. The Statements received were incomplete, with several notes being provided at a later date.
- initially there were delays with the provision of information to support some of the figures included within the Statements, which has had an impact on the timeframe and delivery of the audit. However there was an improvement in the provision of this information as the audit progressed which helped to ensure we met the agreed deadline.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers a number of adjustments to improve the presentation of the financial statements.

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

Controls

Roles and responsibilities

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 as the administering authority.

Findings

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

The way forward

Matters arising from the financial statements audit have been discussed 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 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Page 67
Page 127

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 the 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 9 April 2015. 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 9 April 2015.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

We have yet to receive a copy of the Fund's Annual Report. We will confirm the wording of our proposed opinion on the financial statements in the Annual Report on completion of our review of the Annual Report.

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 (UK&I) 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
	<p>1. Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and communicated this to members via the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
Page 129	<p>2. Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management override of controls</p>	<p>We :</p> <ul style="list-style-type: none"> • reviewed of accounting estimates, judgements and decisions made by management • Tested journal entries • Considered if there were any unusual significant transactions 	<p>Subject to the completion of our outstanding testing, our audit work to date 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 have not been made aware of or identified any unusual significant transactions.</p> <p>We set out on page 12 our work and findings on key accounting estimates and judgements.</p>
Page 69	<p>3. Level 3 Investments – valuation is incorrect</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> • Gained an understanding of the controls officers have put in place to obtain assurance over the valuation of these investments at year end • For a sample of investments, we tested the valuations by obtaining and reviewing the audited accounts at the latest date for investment valuations and agreed these back to fund manager reports at that date. We then reconciled these movements to the values at 31st March 2015 with reference to known movements in the intervening period • We also reviewed the nature and basis of estimated values, and the opinions issued on the audited accounts of the specific investments. 	<p>Subject to the completion of outstanding testing, our audit work to date hasn't identified any issues with the Level 3 Investment valuations included within the Accounts.</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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments values – Level 2 investments	Fair value measurement 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 of information provided by the Fund Managers, the Custodian and the Pension Fund's own records, and sought explanations for any significant variances identified. As sufficient assurance was obtained from the work performed above, we did not need to complete the planned detailed testing on units or unit prices. 	Subject to the completion of our outstanding testing, no issues have been identified to date with the Level 2 valuations included within the Accounts.
Contributions	Recorded contributions not correct.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We performed controls testing over the occurrence, completeness and accuracy of contributions from member bodies. We rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners, and sought explanations for any unexpected trends identified. We also undertook substantive testing on a sample of contributions received during the year to ensure they were deducted at the correct rate given the changes that have occurred following the introduction of LGPS 2014. 	Subject to the completion of our outstanding testing, no issues have been identified to date with the Contributions recorded within the Accounts.

Page 130
Page 70

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Purchases and Sales	Investment activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • We have reviewed the reconciliation of information provided by the Fund Managers, the Custodian and the Pension Fund's own records, and sought explanations for any significant variances identified. • We have also undertaken testing on a sample of purchases and sales where we were unable to obtain the required level of assurance from the work mentioned above. 	Subject to the completion of our outstanding testing, no issues have been identified to date with the Investment Purchases and Sales included within the Accounts.
Benefit payments	Benefits improperly calculated/claims liability understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • We performed controls testing over the completeness, accuracy and occurrence of benefit payments. • We undertook an analytical review of pensions paid to changes in pensioner numbers and increases applied during the year to ensure that any unusual trends were explained. • We didn't perform any detailed testing of pensions in payment, lump sum benefits or refunds as the amounts involved were immaterial. • We compared the movements on membership statistics to material transactions in the accounting records. 	Our audit work has not identified any significant issues in relation to the risk identified. We have obtained sufficient assurance over the benefit payments included within the Accounts.
Member Data	Member data not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • We have performed controls testing over annual/monthly reconciliations and verifications with individual members • We performed sample testing of changes to member data during the year, including new starters. 	Our audit work has not identified any significant issues in relation to the risk identified. We have obtained sufficient assurance over the Fund's Member Data.

Page 71
Page 131

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	The Pension Fund's policy for Contributions and Investment Income is set out in Note 3 under Fund Account – Revenue Recognition.	The revenue recognition policy appears to be consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements.	 Green
Estimates and judgements	Key estimates and judgements disclosed in the notes to the accounts include: <ul style="list-style-type: none"> - Major sources of estimation uncertainty - Investment valuations - Pension Fund Liability 	We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.	 Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of the Fund's accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

Page 72
Page 132

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

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. 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 standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> A number of required disclosures were blank in the first draft of the Accounts, more details of which can be seen on the Misclassifications and disclosure changes section of the Report.
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.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from all Fund Managers and the Custodian for cash and investment balances included within the Accounts. We were able to obtain confirmation of all balances and thus no alternative procedures were required.
7.	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.

Page 73
Page 133

Adjusted misstatements

There are no adjustments to the draft financial statements which 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.

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	n/a	Membership Numbers	The draft Accounts incorrectly included the 2013-14 membership data as the position as at the 31 st March 2015, which has been corrected in the revised version of the Accounts.
2 Disclosure	1,550	Net Asset Statement – Fund Account	The draft Accounts did not disclose the Administration Fees for 2014-15 separately within the Accounts. This is correctly disclosed within the revised Accounts.
3 Disclosure	Several	Note 18a – Equities and Private Equity	The draft Accounts omitted the prior year comparatives for 'Purchases and Sales relating to Equities and Private Equity', which have been amended in the revised Accounts.
4 Disclosure	Several	Note 18b – Analysis of Investments	The draft Accounts did not split all asset classes between 'UK and Overseas', and 'Quoted and Unquoted'. The correct splits have now been included within the revised Accounts.
5 Disclosure	11,471	Note 18c – Analysis of Derivatives	An incorrect figure had been included for the economic exposure of a Futures Contract, which has now been amended within the revised Accounts.
6 Disclosure	23,354	Note 18d – Investments by Fund Manager	The Fund had initially omitted the investment with Darwin Property Asset Management from the breakdown by Fund Manager. This is included within the revised Accounts.
7 Disclosure	98,000	Note 20 – Commitments	This note did not show the position as at the 31 st of March 2015, but has been updated in the revised Accounts.
8 Disclosure	428,077	Note 21 – Interest Rate Risk and Sensitivity Analysis	The disclosures in the draft Accounts didn't include the values as at the 31 st of March 2015. These are correctly shown in the revised Accounts.

Page 135
Page 75

Misclassifications & disclosure changes (continued)

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
9 Disclosure	1,642,289	Note 21 – Currency Risk Sensitivity Analysis	This note had not been updated for 2014/15 in the draft accounts. The note has been amended in the revised Accounts.
10 Disclosure	77,218	Note 21 – Credit Risk – Cash Balances	This note had not been updated for 2014/15 in the draft accounts. The note has been amended in the revised Accounts.
11 Disclosure	n/a	Note 24 - Custody	We requested an enhancement to the disclosure in respect of the Fund's Private Equity Mandates to clarify the role the Custodian's role in respect of each of these investments, which has now been updated in the revised Accounts.
12 Disclosure	Several	Note 26 – Actuarial Present Value of Future Retirement Benefits	The draft Accounts included the 2013-14 Actuarial Statement, which has now been updated for the 2014-15 Actuarial Statement in the revised Accounts.
13 Disclosure	9,613	Note 27 – Additional Voluntary Contributions	This note had not been updated for 2014/15 in the draft accounts. The note has been amended in the revised Accounts.

Section 3: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non-audit services and independence**
- 04. Communication of audit matters

Page 77
Page 137

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 £
Pension fund scale fee	27,105	27,105
Fee variation	n/a	2,000
Total audit fees	27,105	29,105

We are currently in discussion with the Council in respect of agreeing a fee variation for the delays encountered at the start of the audit.

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 your attention. We have complied with the Financial Reporting Council'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 4: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non-audit services and independence
- 04. Communication of audit matters

Page 139
Page 79

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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 Fund'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.

Page 140
Page 140
Page 140

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

Page 81

Page 141

Appendix B: Audit opinion

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

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

We have audited the pension fund financial statements of Surrey County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the 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 2014/15.

This report is made solely to the members of Surrey County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial

information in the explanatory foreword to identify material inconsistencies with the audited pension fund 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 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

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

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xx July 2015



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