

# The Audit Plan for Surrey County Council

**Year ending 31 March 2016**

22 February 2016

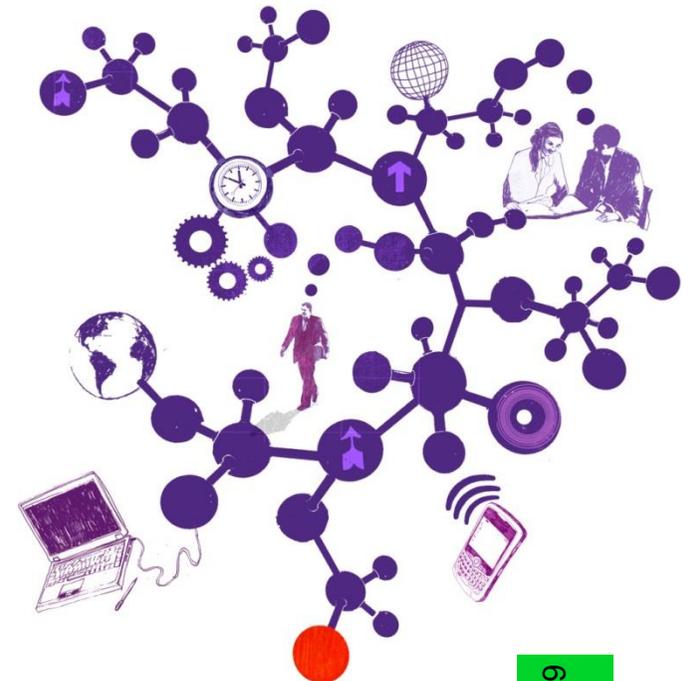
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22 February 2016

Dear Members of the Audit and Governance Committee

**Audit Plan for Surrey County Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Surrey County Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Yours sincerely

Andy Mack, for and on behalf of Grant Thornton UK LLP

**Chartered Accountants**

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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.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging. We have discussed with senior management the impact of the Chancellor's statement on the Council.

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- You are leading plans for devolution across the region, through discussion with central government.

### 3. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- You are host of the Better Care Fund in Surrey as part of a partnership with your NHS partners.

### 4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- You have already achieved completion of the audit of your financial statements by the 31 July deadline.



## Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in the financial statements.

- We will continue to work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We will complete all substantive work in our audit of your financial statements by 31 July 2016.
- We will undertake more extensive early testing than in 2014/15 so as to enhance the efficiency of the audit even further.

# Developments and other requirements relevant to your 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 and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset. The impact on your 2015/16 financial statements is unlikely to be material.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.
- We have already discussed the impact of the above with the finance team, which will be highly material. We have reviewed the timetable the Council has in place to undertake this significant exercise.

### 4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- You have a new property company, wholly-owned by the council, that has started trading in 2015/16 and will be included in your 2015/16 group financial statements.

## Our response

- We will keep the Council informed of any further changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We have already discussed with the finance team the impact of IFRS 13 and the planned approach to valuation of these assets and will continue this dialogue throughout the year.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

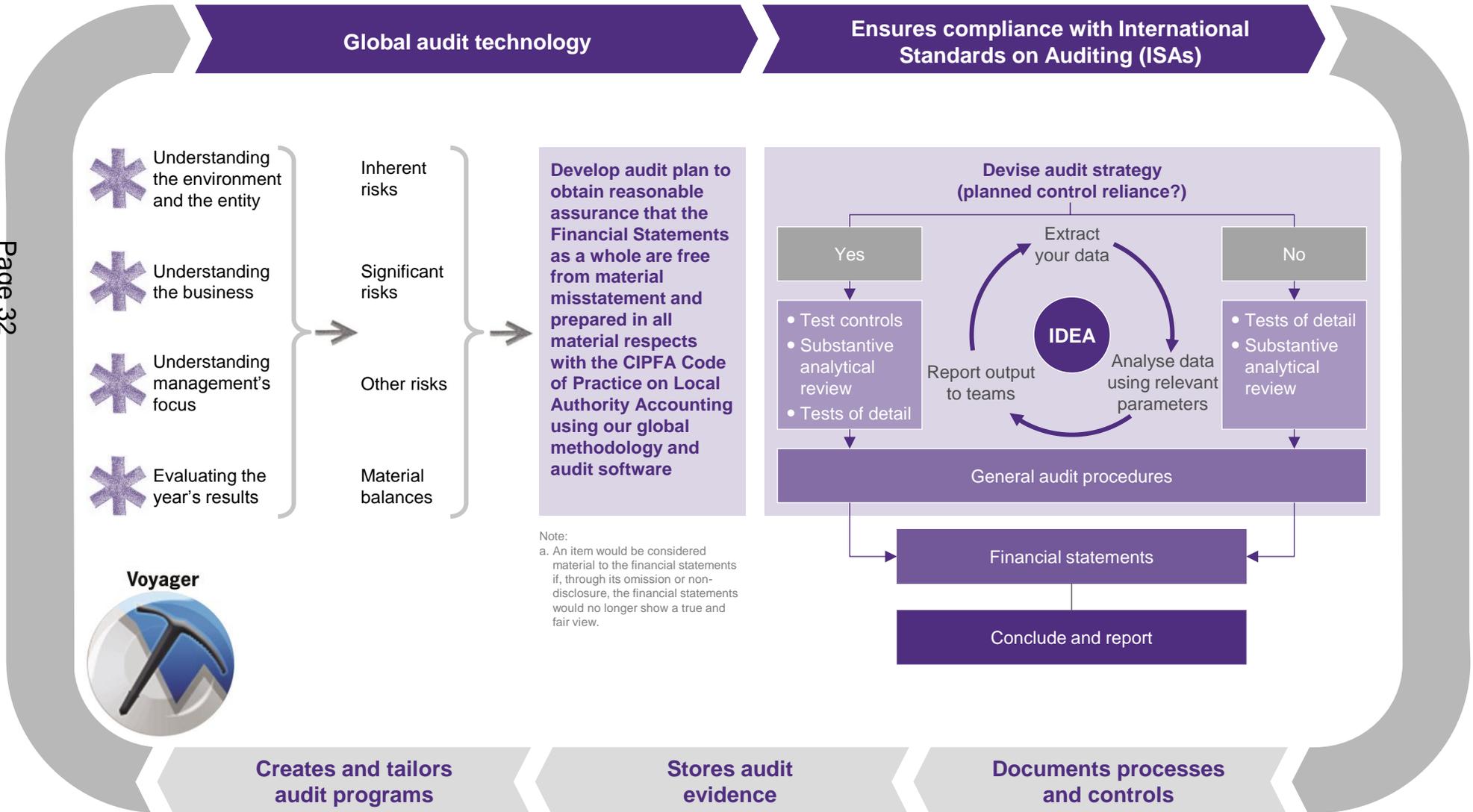
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

# Our audit approach

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Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £27,787k (being 1.5% of prior year audited gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £32,946k (being 1.8% of prior year unaudited gross revenue expenditure). We have applied a lower percentage threshold this year to reflect the increased scrutiny of financial performance across local government, amidst increasing pressures being faced on revenue funding, key areas of expenditure and the need to continue to make significant efficiency savings each year.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1,389k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing:

| Balance/transaction/disclosure  | Explanation   |
|---|---|
| Cash and cash equivalents   | Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature. |
| Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made.  |
| Disclosure of related party transactions in notes to the statements                                 | Due to public interest in these disclosures and the statutory requirement for them to be made.  |

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

| Significant risk                                   | Description  | Substantive audit procedures  |
|--|--|---|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>For this Council, we have concluded that the greatest risk of material misstatement as regards revenue recognition relates to the occurrence/ existence of other income and receivables. | 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: <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 it is presumed that the risk of management over-ride of controls is present in all entities.   | <b>Work planned:</b> <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 and significant transactions</li> </ul>   |

## Significant risks identified (continued)

| Significant risk                           | Description  | Substantive audit procedures  |
|--|--|---|
| Valuation of property, plant and equipment | The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements. | <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements</li> <li>• Procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends where appropriate</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul> |
| Valuation of pension fund net liability    | The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates 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 competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</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 (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. These apply to both the Council and Group financial statements.

| Other risks                   | 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 planned:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of your controls in place over property, plant and equipment</li> <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>  |

# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# 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 conduct a high level analytical review. |
| Surrey Choices Limited          | No           | Targeted                                 | None at this stage  | We will conduct a high level analytical review. |
| Halsey Garton Property Limited  | No           | Targeted                                 | None at this stage  | We will conduct a high level analytical review. |

# Value for Money

## Background

The Code requires us to consider 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out in the table on the right:

## Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

| Sub-criteria                                  | Detail   |
|---|--|
| Informed decision making                      | <ul style="list-style-type: none"> <li>• Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>• Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• Managing risks effectively and maintaining a sound system of internal control</li> </ul> |
| Sustainable resource deployment               | <ul style="list-style-type: none"> <li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>• Managing assets effectively to support the delivery of strategic priorities</li> <li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>  |
| Working with partners and other third parties | <ul style="list-style-type: none"> <li>• Working with third parties effectively to deliver strategic priorities</li> <li>• Commissioning services effectively to support the delivery of strategic priorities</li> <li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>   |



# Value for Money (continued)

## Risk assessment

Following the completion of this risk assessment, we have identified three significant risk and these are summarised below. A significant risk is defined as an issue, decision or area of activity which relates to the overall VfM criterion, is important enough to be of clear interest to the public and other stakeholders and about which we do not already have sufficient information on which to base a conclusion on the relevant arrangements. Included below are details of the work we plan to carry out to address these risks in fulfilling our duties in respect of the 2015/16 VfM conclusion. We will also consider the Council's other risks related to the NAO's VfM criteria and will report back any findings to the Audit and Governance Committee.

| Significant risk identified   | Sub-criterion                   | Planned response   |
|---|---------------------------------|--|
| The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement, the scale of efficiencies and savings required is sizeable.                  | Sustainable resource deployment | We propose to: <ul style="list-style-type: none"> <li>review the Council's progress in updating its medium term financial strategy and the reports to Members</li> <li>review the outturn position for 2015/16 and the budget plans for 2016/17 and 2017/18</li> <li>meet with key officers to discuss key strategic challenges and the Council's proposed response</li> </ul> |
| Ofsted issued a critical report on children's services in 2014/15 and the council is currently subject to follow up review. We issued a qualified except for conclusion in 2014/15. Until such time as Ofsted confirmed adequate arrangements are in place this remains a significant risk. | Sustainable resource deployment | We propose to: <ul style="list-style-type: none"> <li>review update reports from Ofsted as available and take these into account in informing our VfM conclusion.</li> </ul>   |
| The Orbis partnership is now underway. It is both innovative and represents a major change in back office service provision. The partnership is of considerable strategic importance to the Council.  | Working with partners           | We propose to: <ul style="list-style-type: none"> <li>Meet with officers to understand nature and extent of progress with the project.</li> <li>Review key decision papers and reports presented to Council committees.</li> </ul>   |

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 31 July 2016.

# 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:

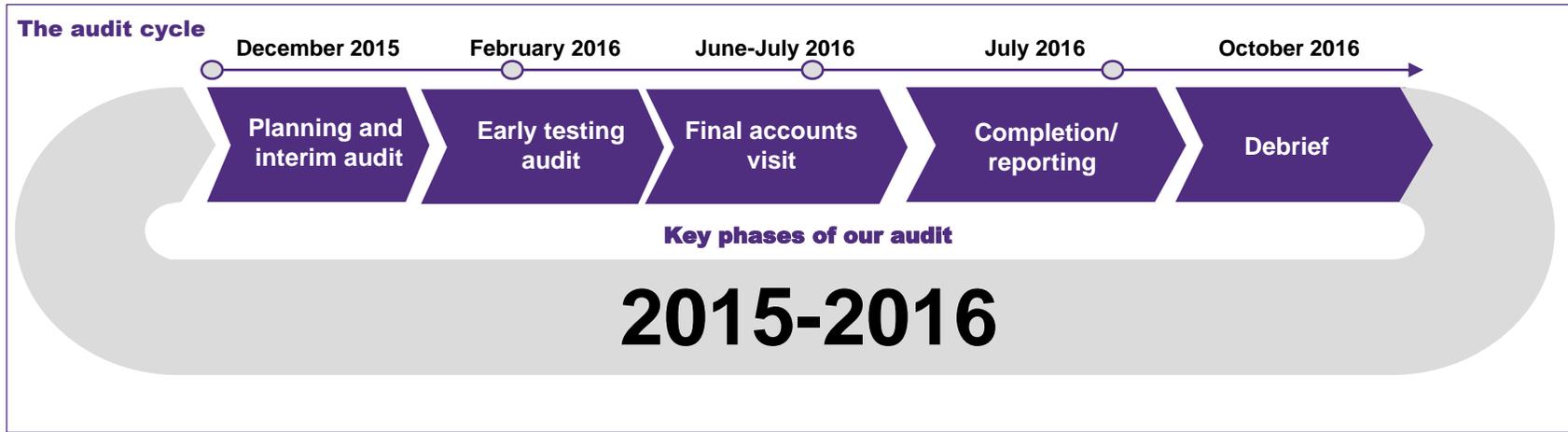
|  | Work performed   | Conclusion  |
|--|--|---|
| <b>Internal audit</b>                            | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal 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 provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit 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 including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul> | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>   |
| <b>Review of information technology controls</b> | <p>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.</p> <p>This will involve an assessment of whether IT (information technology) controls have been implemented in accordance with our documented understanding.</p>   | <p>Our specialists will complete this testing in March 2016 and we will report any matters to bring to your attention in our Audit Findings Report.</p>   |



## Results of interim audit work (continued)

|                                  | Work performed   | Conclusion  |
|----------------------------------|--|---|
| <b>Walkthrough testing</b>       | <p>We have completed walkthrough tests of the Council's controls operating in all areas where we consider that there is a risk of material misstatement to the financial statements, with the exception of property, plant and equipment.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>  | Our work has not identified any weaknesses which impact on our audit approach. Any findings arising from our completion of this work will be reported to you in our Audit Findings Report.                                      |
| <b>Journal entry controls</b>    | <p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and to identify any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>In February 2016 we will be undertaking detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>   | Any findings arising from this work will be reported to you in our Audit Findings Report.   |
| <b>Early substantive testing</b> | <p>We will be undertaking substantive sample testing to month 9 in the following areas:</p> <ul style="list-style-type: none"> <li>- Grants income</li> <li>- Other revenues</li> <li>- Operating expenditure</li> <li>- Payroll expenditure</li> <li>- Council tax precept demands</li> <li>- Property, plant and equipment additions</li> <li>- Property, plant and equipment disposals</li> <li>- Property, plant and equipment deeds</li> <li>- Journals (as per above)</li> </ul> <p>No issues have been identified that we wish to highlight for your attention.</p> | We will complete this testing later in February 2016 and will report our findings of this work, along with subsequent testing to cover the period to year end to be undertaken in June/July 2016, in our Audit Findings Report. |

# Key dates



| <b>Date</b>  | <b>Activity</b>   |
|--|---|
| <b>December 2015</b>                                   | Planning and interim audit  |
| <b>15<sup>th</sup> – 26<sup>th</sup> February 2016</b> | Early testing audit   |
| <b>22 February 2016</b>                                | Presentation of audit plan to Audit and Governance Committee                            |
| <b>6<sup>th</sup> June – 22<sup>nd</sup> July 2016</b> | Year end fieldwork  |
| <b>July 2016 (date TBC)</b>                            | Audit findings clearance meeting with Director of Finance                               |
| <b>25 July 2016</b>                                    | Report audit findings to those charged with governance (Audit and Governance Committee) |
| <b>By 29 July 2016</b>                                 | Sign financial statements opinion   |

# Fees and independence

## Fees

|  | £          |
|--|------------|
| Council audit (2015/16)                                      | 142,098    |
| Audit of S. E. Business Services Limited (2015/16)           | 15,000     |
| Audit of Surrey Choices Limited (2015/16)                    | 18,000     |
| Additional fee for audit of Surrey Choices Limited (2014/15) | TBC        |
| <b>Total audit fees (excluding VAT)</b>                      | <b>TBC</b> |

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### 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.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.
- 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 £ |
|--|--------|
| Certification of Teachers' Pensions return (2015/16) | 4,000  |

### 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 requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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   |            | ✓              |
| 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   |            | ✓              |
| Matters in relation to the Group audit, including:<br>Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | ✓          | ✓              |

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# Appendices

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

In our Audit Finding Report on the 2014/15 financial statements, we agreed a number of recommendations with management. Progress against these recommendations is shown below.

| Rec No. | Recommendation   | Priority | Management response on progress  |
|---------|--|----------|--|
| 1       | Obtain legal advice to ensure that the approach taken to the de-recognition of schools and the use of the statutory override is appropriate. | High     | Subsequent to the audit findings report being agreed, CIPFA issued an informal commentary on the issue. We consulted with our internal legal team and they consider the CIPFA commentary to support the view that our accounting treatment of foundation schools is within the statutory framework. We are now satisfied that the approach taken to the de-recognition of schools and the use of the statutory override is appropriate.  |
| 2       | Ensure the accounts fully disclose all key judgements made in applying its accounting policies and the rationale for determining them.       | Medium   | In the 2015/16 accounts we will have a new critical judgement around the adoption of the new accounting policy for surplus assets following the introduction of IFRS13. This change will be fully disclosed in the accounts along with the full rationale behind the change. The schools accounting judgements will remain in the accounts but reflect that 2015/16 it is the second year of adoption following our review of schools accounting in 2014/15.   |
| 3       | Undertake a post mortem of the 2014/15 closedown and identify areas where the timeliness of response to audit queries can be improved.       | Medium   | The closing working group has agreed a new process for responding to audit requests. A new central record will be held of all samples that service accountants can access to see all requests for evidence in one place. This should aid communication and make it clearer for everybody what is required. Grant Thornton have agreed to do a lunchtime learning session and provide a document on working papers and audit evidence so staff are more aware of GT requirements. A review of transactions on the balance sheet is underway to remove transactions that can now be cleared and removed from open items. This will help reduced the number of old year transactions, that don't make up the year-end balance, from appearing as open items at year-end and featuring on any sample requests. |
| 4       | Build on the lessons learned from previous successful efficiency programmes to address the increasing financial challenges it faces.         | Medium   | The council held regular budget workshops with cabinet and senior officers from May 2015 to January 2016 to develop the budget strategy for the next five years. This included the paper to Cabinet in November 2015 setting out the Financial Prospects for the Medium Term Financial Plan. Following the Local Government Settlement, the council is now proposing a Public Value Transformation Programme of all service delivery to ensure the council's budget is sustainable.  |



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