

The Audit Plan for Surrey County Council

DRAFT

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

Year ended 31 March 2013

Andy Mack

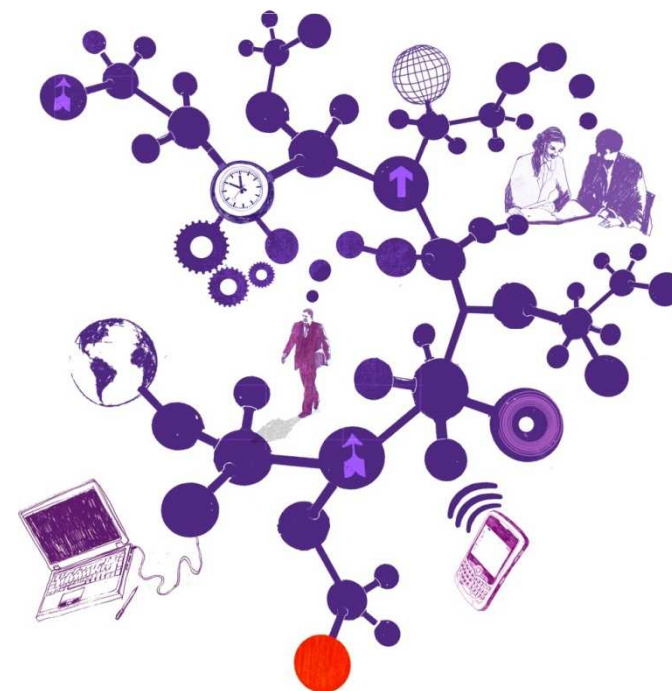
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Understanding your business

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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. Financial pressures <ul style="list-style-type: none"> • Impact of current and future spending reviews • Reductions in the Council's main sources of funding • Increasing demands for services 	2. Significant policy changes <ul style="list-style-type: none"> • Government policy changes in relation to social care, welfare and funding • Increasing number of academy schools 	3. Service developments <ul style="list-style-type: none"> • Delivery of key waste targets and waste infrastructure • Delivery of Surrey Highways Transformation Project 	4. Public Health responsibilities <ul style="list-style-type: none"> • The Council takes over responsibility for public health with effect from 1 April 2013
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Our response

<ul style="list-style-type: none"> • We will review the Council's financial planning, monitoring and governance arrangements, focusing on preparation of and progress against its Medium Term Financial Plan Public Value Review (PVR) programme and income generation schemes. • We will report on financial resilience data, including benchmarking data for the sector 	<ul style="list-style-type: none"> • We will review how changes, risks and opportunities have been incorporated into the Medium Term Financial Plan 	<ul style="list-style-type: none"> • We will review the Council's progress on these areas, particularly the development of partnership working 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the changes through our meetings with senior management
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Developments relevant to your business and the audit

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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. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Transfer of assets to Academies Recognition of grant conditions and income 	<ul style="list-style-type: none"> Local Government Finance settlement 2012/13 Welfare reform Act 2012 	<ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<ul style="list-style-type: none"> Planning for the impact of changes to the Local Government pension Scheme (LGPS) from April 2014. 	<ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	<ul style="list-style-type: none"> The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion The Council completes grant claims and returns on which audit certification is required

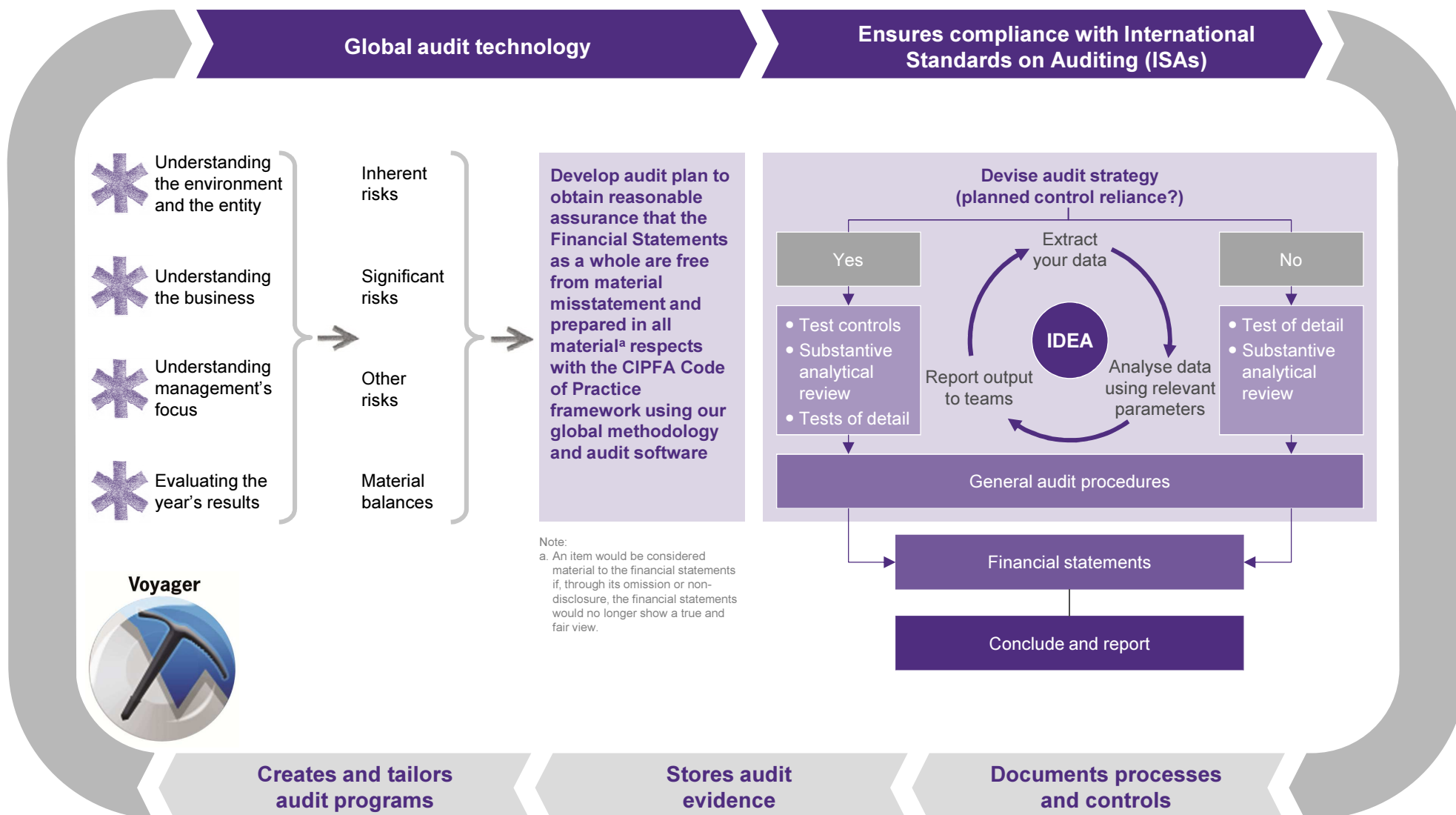
Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing the Council's arrangements to ensure schools are accounted for correctly and in line with the latest guidance grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> We will review the arrangements the Council has in place for the production of the AGS We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> We will discuss how the Council is planning to deal with the impact of the changes through our meetings with senior management 	<ul style="list-style-type: none"> We will review the Council's performance against its 2012/13 budget, including consideration of performance against the Medium Term Financial Plan We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> We will carry out work on the WGA pack in accordance with requirements We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach

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An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Cost of services – other revenues (grants and fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		×
Precepts and levies	Yes	Council Tax	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	Yes	Investments	Low	None		✓
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR distribution	Yes	NNDR	Low	None		✓
PFI, revenue support grant & other government grants	Yes	Grant Income	Low	None		✓
Capital grants & contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	High	Significant	<p>There is a risk that Property, Plant and Equipment may be materially misstated due to the incorrect inclusion or omission of schools on your balance sheet.</p> <p>Audit testing in 2011/12 identified errors in the disclosure of Assets under Construction in the notes to the accounts</p>	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets	No	Property, Plant & Equipment	Low	None		×
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×

An audit focused on risks (continued)

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Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	No	Provision	Low	None		×
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

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. In addition, we have identified one further significant risk relating to Property, Plant and Equipment.

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.	Work planned: <ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of attribute and / or substantive testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions
Property, Plant and Equipment is materially misstated.	<p>The Council manages schools through a variety of governance arrangements e.g. community schools, voluntary controlled schools, voluntary aided schools, foundation schools and academies. The differences in those arrangements have implications for the accounting treatment of each of these categories. There is a risk that Property, Plant and Equipment may be materially misstated due to the incorrect inclusion or omission of schools on your balance sheet.</p> <p>Audit testing in 2011/12 identified errors in the disclosure of Assets under Construction in the notes to the accounts.</p>	Work planned: <ul style="list-style-type: none"> Review the Council's consideration of schools, the proposed accounting treatment and the accounting policy Testing the accounting treatment of schools Review and testing of the reconciliations between the Fixed Asset Register and the General Ledger Review and testing of movements during the year and of the year end balance

Other risks

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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).

Other reasonably possible risks	Description	Work planned
Operating expenses	Operating expenses understated Creditors understated or not recorded in the correct period	<ul style="list-style-type: none">• Identification and walkthrough of controls• Testing of payments for completeness, classification and occurrence
Employee remuneration	Remuneration accruals understated	<ul style="list-style-type: none">• Identification and walkthrough of controls• Attribute and / or substantive testing of payroll records
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none">• Identification and walkthrough of controls• Substantive testing of revaluations in year

Planned interim audit work

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Scope

As part of the interim audit work, which commenced on 25 February 2013, and in advance of our final accounts audit fieldwork, we will:

- consider the effectiveness of the internal audit function;
- review the results of internal audit's work on the Council's key financial systems;
- undertake walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement; and
- carry out a review of Information Technology (IT) controls

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	Work to be performed
Internal audit	<p>We will review internal audit's overall arrangements against the CIPFA Code of Practice and the new Public Sector Internal Audit Standards (PSIAS) which come into effect on 1 April 2013. Our review will take into account CIPFA's recent review of internal audit at the Council.</p> <p>Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.</p>
Walkthrough testing	<p>Walkthrough tests will be completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.</p>

Planned interim audit work (continued)

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	Work to be performed
Review of information technology (IT) controls	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. This work is scheduled for May 2013, after the SWAN network upgrade has been completed.
Journal entry controls	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>We will undertake detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review.</p>
PFI schemes	We will review the Council's 3 PFI accounting models to confirm they remain up to date, reasonable and provide materially correct entries to the financial statements.
Accruals	We will review the progress the Council has made in assessing the extent of the potential overstatement identified in 2012/13 and in improving its controls over this area.
Related party transactions	As Council elections will take place in May 2013, we will assess the Council's arrangements for ensuring that all declarations of interest and related party transactions are recorded before changes in elected members occur.

Value for Money

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Introduction

The Code of Audit Practice 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.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit and Governance Committee.

The results of all our local VfM audit work and key messages will be reported in our Annual Governance (ISA 260) Report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Review the progress being made on the Council's Waste Management PFI project;
- Review the Council's development of income generation plans;
- Assess the achievement of the savings required by the Council's Medium Term Financial Plan (MTFP) and how future savings will be made;
- Review the arrangements in place for budgeting, forecasting and reporting capital expenditure.
- Assess progress in implementing the recommendations arising from Public Value Reviews (PVRs);
- Review progress made in developing partnership working; and
- Assess financial standing including adequacy of balances and reserves.

Logistics and our team

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The audit cycle



Date	Activity
17/01/2013	Planning meeting
25/02/2013	Interim site work
18/03/2013	The audit plan presented to Audit and Governance Committee
17/06/2013	Year-end fieldwork commences
Jul / Aug 2013	Audit findings clearance meetings
02/09/2013	Audit and Governance Committee meeting to report our findings
Sep 2013	Sign financial statements and VfM conclusion
Oct 2013	Issue Annual Audit Letter

Our team

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Fees and independence

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Fees

	£
Council audit	189,464
Grant certification	4,200
Total	193,664

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- 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

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 Annual Governance (ISA 260) 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

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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 Annual Governance (ISA 260) 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 the Audit Commission (www.audit-commission.gov.uk).

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

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

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

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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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