Grant Thornton

External Audit Plan

Year ending 31 March 2020

Surrey County Council & Surrey Pension Fund

29 January 2020

Contents

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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 planning 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 all 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.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Surrey County Council ('the Council') Group and Surrey Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and the Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.

	The Group and Council	The Pension Fund
Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of Halsey Garton Property Ltd, Surrey Choices Ltd and South East Business Services Ltd. We have outlined the scope of our work on the Council's subsidiaries on page 5.	Not applicable to the Fund's accounts.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management Override of Controls • Valuation of land and buildings • Valuation of net pension fund liability	• Management Override of controls • Valuation of Level 3 investments
	We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.	
Materiality	We have determined planning materiality to be £26m (PY £30.1m) for the group and £25.8m (PY £30m) for the Council, which equates to 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.5m).	We have determined planning materiality to be £43.1m (PY £40m) for the fund, which equates to 1% of your prior year net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.1m (PY £2m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Children's Services • Financial Resilience • Waste PFI Eco Park Further details is set out on page 13.	Not applicable to the Pension Fund's accounts.

Introduction & headlines (continued)

Audit logistics	Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.	
Audit Fees	Our fee for the audit will be £140,415 (PY: £130,915) subject to agreement with management and PSAA, and to the Council meeting our requirements set out on page 15.	Our fee for the audit has yet to be confirmed with management (PY: £20,871), and is subject to the Fund meeting our requirements set out on page 15.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.	

Key matters impacting our audit of the Council and Fund

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. or Surrey County Council, there are significant resource pressures arising from drastically reduced central government funding over recent years, as well as other external pressures such as growing expenditure on demand-led services such as adult social care. Central government funding has marginally increased for 2020/21, but similar challenges remain in ensuring financial resilience without reliance on use of reserves.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain somewhat uncertain. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

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Local issue – PFI Eco Park

The Council has engaged with a private partner as part of a PFI scheme to deliver a Waste disposal facility to serve residents of Surrey.

The delivery of anticipated outcomes of the scheme is currently significantly delayed and we will consider the impact of this matter as part of our accounts and Value for money audits for 2019-20

IFRS 16 Leases

The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our national work in 2018/19 has highlighted areas where local government financial reporting, in particular around, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- We will consider progress against recommendations made in previous audits in respect of Financial Sustainability of the Council.

- We identified a significant audit risk relating to valuation on Land & Buildings – see page 7. As part of the work on the significant risk we will consider the valuation of assets related to the PFI Eco Park scheme.
- We identified a significant VFM risk in relation to the PFI Eco Park Scheme – see page 13.
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 Leases from 1 April 2020.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fees, as set out in our Audit Plan (see page 15), will be agreed with the Executive Director of Resources and is subject to PSAA agreement.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to 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	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Surrey County Council	Yes	**Comprehensive**	• See page 6 onwards	Full scope UK statutory audit performed by Grant Thornton UK LLP
Halsey Garton Property Limited	Yes	**Component Audit**	• Valuation of Investment property assets as at 31st March 2020.	Full scope UK statutory audit performed by a component audit team. Instructions to be issued to component audit team as part of the interim audit.
Surrey Choices Limited	No	Analytical Only	None	Analytical review performed by Grant Thornton UK LLP.
South East Business Services Limited	No	Analytical Only	None	Analytical review performed by Grant Thornton UK LLP.

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Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in revenue recognition	**SCC & SPF**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Fund, we have determined that the risk of fraud in revenue recognition can be rebutted, because; • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Surrey County Council as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	**SCC & SPF**	Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals • Analyse the journals listing and determine the criteria for selecting high risk unusual journals • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • Evaluate the rationale for any changes in accounting policies or significant unusual transactions

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Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	**SCC**	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.19 billion PY) and the sensitivity of the estimate to changes in key assumptions. We therefore have identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluate the instructions issued by managements to their management expert for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund liability • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
Valuation of land and buildings	**SCC**	The council re-values its land and buildings on an rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.14 billion PY) and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2019 in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts ad the scope of their work • Consider the competence, expertise and objectivity of any management experts used. • Discuss with the valuer the basis on which the valuation is carried out and challenge of the key assumptions • Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding • Test revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluate 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.

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Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	**SPF**	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We have identified the valuation of Level 3 investments as a risk requiring special audit consideration.	We will: • Gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known cash movements in the intervening period.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	**SCC**	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • Evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Council Leasing Briefings.
Fraud in Expenditure Recognition	**SCC & SPF**	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets.	Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 7. We will: • Obtain an understanding of the design effectiveness of controls relating to operating expenditure. • Perform testing over post year end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

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 this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

Surrey County Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £26m (PY £30.1m) for the group and £25.8m (PY £30m) for the Council, which equates to 1.25% of your prior year gross expenditure for the year. We also design our procedures to detect errors in specific accounts which we consider are material by nature. These consist of Cash, Senior Officers Disclosures, Related Party Transactions, Subsequent Events and Audit Fees.

Surrey Pension Fund

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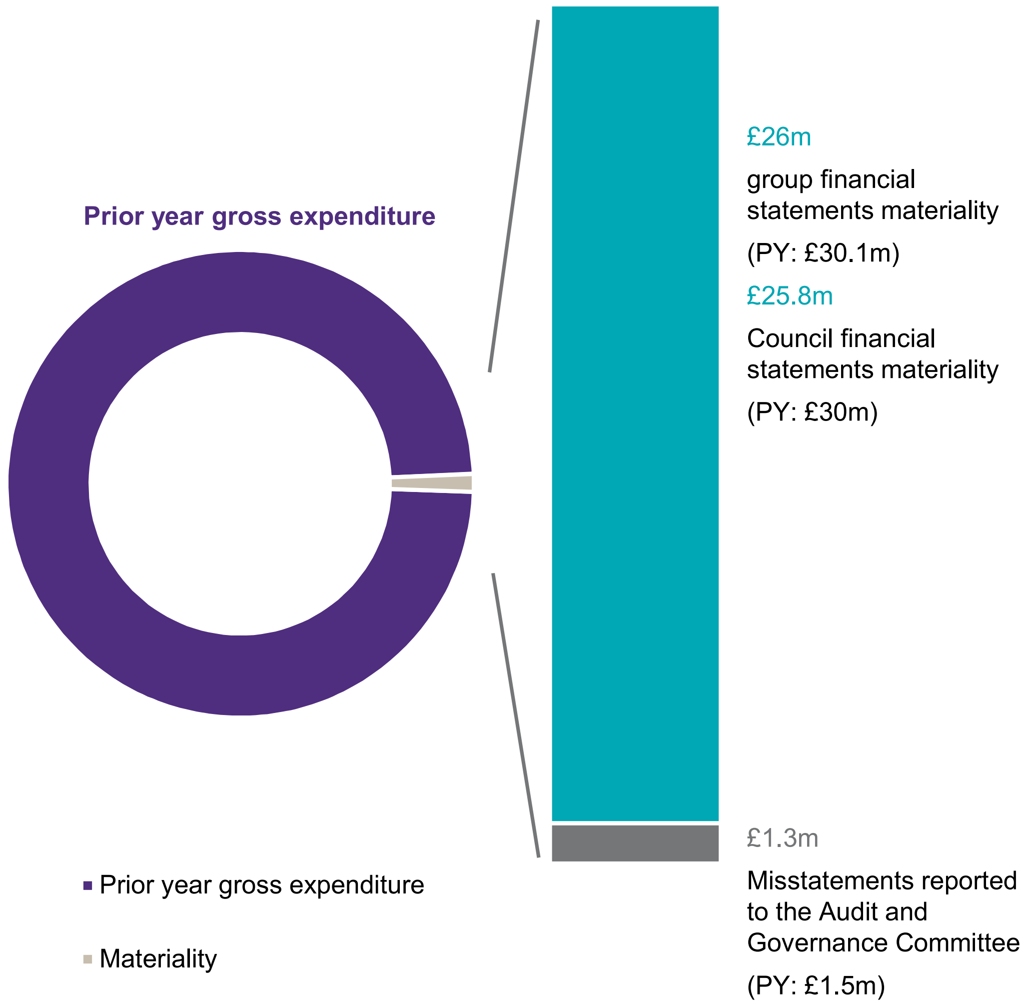
We have determined financial statement materiality based on a proportion of the net assets of the fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £43.1m (PY £40m), which equates to 1% of your prior year net assets. We also design our procedures to detect errors in specific accounts which we consider are material by nature. These consist of cash, senior officers disclosures, related party transactions, subsequent events and audit fees.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.3m (PY £1.5m), this will be set at £2.1m (PY £2m) for the Fund.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The 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, being:

- Informed decision making
- Working with partners & other third parties
- Sustainable resources deployment

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Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Financial Resilience

The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Financial resilience of the Council will depend on its ability to balance its budget without use of reserves.

Revenue budget outturn for 2018/19 was a £21.8m underspend, with a £0.5m contribution to reserves. Prior to this, the Council had balanced its budgets through utilising drawdowns from reserves for the past four years from 2014/15. Forecast outturn for 2019/20 is currently to achieve breakeven without use of reserves, and the Council have also set a balanced budget for 2020/21 without use of reserves.

There is a risk that the Council may fail to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019/20 as a result of financial pressures and non-achievement of Transformation plans. We will review your Medium Term Financial Plan, including the robustness of assumptions, savings plans and revenue generating schemes. We will discuss your plans and outcomes with management, as well as reviewing financial outturn reports and how performance was reported to Councillors.

Children's Services

Ofsted issued a critical report on children's services in 2014/15 and the Council has had a number of follow-up reviews over the past few years.

We have issued qualified except for conclusions in recent years due to Department for Education interventions and reports in relation to Children's Services.

Ofsted will undertake a number of monitoring visits during 2019/20. There is a risk that the Council's provision of Children's Services does not achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019/20 as a result of failure to meet required standards. We will review the outcome of relevant monitoring visits occurring during the financial year and the robustness of the Council's response to risks regarding quality of Children's services.

Eco Park PFI Scheme

The cost of the capital for the Eco Park PFI scheme was originally estimated at around £250million, for which the Council had obtained HM Treasury PFI credits of approximately £80million.

The Gasification facility was due to be operation by 7 November 2017 and is significantly delayed, as it is not currently operating per the original plan. Management have stated that project delays have been associated with the management of the construction project, not be failure of the gasification technology, however the facility has yet to reach acceptable standards per acceptance tests outlined in the contract with the PFI Operator.

There is a risk that the scheme does not achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019/20 as a result of failure to meet required operating standards.

Audit logistics & team

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Ciaran McLaughlin, Engagement Lead

Ciaran is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee.

Tom Beake, Audit Manager

Tom is responsible for overall audit management, quality assurance of audit work and output, and liaison with the audit committee.

Hal Parke, Audit Incharge

Hal is for management and delivery of audit fieldwork, including both interim and final accounts work.

The team is consistent across the Council and the Fund.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, will be agreed with the Executive Director of Resources and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£142,098	£130,915	£140,415
Pension Fund Audit	£27,105	£27,871*	£TBC**
Audits of subsidiary companies	£41,500	£44,000	£TBC**
Total audit fees (excluding VAT)	**£210,703**	**£174,286**	**£TBC**

*Includes cost of providing IAS 19 assurances to auditors of admitted bodies to be charged to the Fund under the PSAA framework (£7,000 2017/18). We would estimate a similar level of fees for 2019/20.
**Subject to further discussions with management.

Assumptions:
In setting the above fees, we have assumed that the Council will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations (SCC Only) – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fees	109,415	Not applicable – this is the PSAA scale fee for the Council (109,415) and is unchanged from the prior year.
Raising the bar	6,500	The Financial Reporting Council (FRC) has highlighted that the quality and extent of work by all audit firms needs to increase across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	4,000	Reflecting this higher profile, and the expectations of stakeholders, we propose to reduce the materiality level for all major audits. For Surrey this means a change in materiality from approximately 1.5% to 1.25%. This will increase the volume and scope of our testing and reporting to those charged with governance, as well as providing additional assurance in respect of the audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	4,000	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth, and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting in this area.
PPE Valuation – work of experts (including estimated cost of an auditor's expert)	9,500	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Wilks Head and Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.
Group Accounts	4,000	The above factors affecting the nature and extent of our audit work are also relevant to the Group Accounts of Surrey County Council.
Introduction of IFRS 16	3,000	The Council are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	**140,415**	

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Certification of Teacher's Pensions return	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fixed fee for the audit of £109,415 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pensions return – Surrey Choices Limited	3,500	Self-Interest (because this is a recurring fee)	As above.
Non-audit related:			
CFO Insights subscription	12,500	None	None

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.
The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.ie/about/transparency-report/

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Council of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Council financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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