



The Audit Findings for Surrey County Council

Year ended 31 March 2013

20 August 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Surrey County Council's (the Council) financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code). We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 18 March 2013.

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

- receipt of one investment confirmation letter
- obtaining and reviewing the final management letter of representation following the Audit and Governance Committee meeting
- updating our post balance sheet events review, to the date of signing the opinion and confirming there are no further amendments to the financial statements

- preliminary testing of the Teachers' Pensions Return; and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. We anticipate issuing our opinion on 5 September 2013. We will issue our certificate closing the audit once we have completed the required work on the Whole of Government Accounts.

Key issues arising from our audit Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified three adjustments affecting the Council's Comprehensive Income and Expenditure Statement and one affecting the Balance Sheet (details are recorded in section 2 of this report). None of the amendments identified affected the net expenditure figure. We have also agreed a number of adjustments to the notes to the accounts to improve the presentation of the financial statements.

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

- The draft financial statements were well prepared, together with good quality supporting working papers. All Council staff responded on a timely basis to our audit queries.
- The findings from our audit of Surrey Pension Fund are included in a separate Audit Findings Report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We are currently awaiting guidance on the work required in respect of the Whole of Government Accounts. We will complete the work in accordance with the national timetable and will provide a verbal update on progress to Committee members.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. We identified two minor control weaknesses during our audit.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer and Deputy Director for Business Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and Deputy Director for Business Services and the finance team.

We have agreed a provisional timetable and working arrangements with the finance team for 2013/14 to enable the planned approval of the financial statements at the end of July 2014.

Acknowledgment

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

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
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- 05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 18 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 18 March 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries have not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3.	<p>Property, Plant and Equipment is materially misstated. 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>	<ul style="list-style-type: none"> • testing classification of schools • testing schools derecognised in the year • testing additions in the year, including those made to Assets under Construction 	<p>Our audit work has not identified any issues in respect of the Council's accounting treatment of schools. CIPFA / LASAAC are currently considering an update to the Code, but changes are not expected until 2014/15 at the earliest.</p> <p>We recommend as best practice for 2013/14 that the Council should disclose in the notes to the accounts the value of land and buildings relating to schools that have not been recognised in the financial statements. This will anticipate the planned changes to the Code.</p> <p>Our audit work has not identified any issues in respect of Assets under Construction.</p>



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	<p>Operating expenses understated</p> <p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively tested payments for completeness, classification and occurrence 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Employee remuneration	<p>Remuneration expenses not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively tested salary payments to ensure they were made to bona fide employees. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Property, plant & equipment	<p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthroughs of the key controls to assess whether those controls are designed effectively substantively tested revaluations in year. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>As permitted under the Code, the Council carries out a rolling programme of revaluations, so that each asset is revalued at least every 5 years. For example, in 2012/13 all youth centres, Runnymede schools and adult education centres were revalued. The Council should ensure that if the revaluation programme highlights significant movements in carrying amounts, it considers the results on the remainder of the asset class.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> • Revenue from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service. • Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: <ul style="list-style-type: none"> - the Council will comply with the conditions attached to the payments; and - the grants or contributions will be received. 	<p>The accounting policy is adequately disclosed in line with the requirements of the Code.</p> <p>Our testing of government grants and contributions did not identify any instances of inappropriate revenue recognition.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Green</p>
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include <ul style="list-style-type: none"> - useful life of capital equipment - revaluations - provisions - pensions liability - recoverability of debtors - impairment of Icelandic investments 	<p>Critical judgements and estimation uncertainties are disclosed in Notes 3 and 4 of the financial statements and are in line with the requirements of the Code.</p> <p>The Council entered into a PFI contract for waste disposal in 1999. As at 31 March 2013 it had received £117.7 million in PFI credits, and in return has an obligation to invest in waste disposal infrastructure. Planning permission for the Eco Park was granted in March 2012, but a large proportion of this obligation has yet to be delivered. As such the Council has disclosed a contingent liability of £117.7 million in respect of potential repayment of PFI credits received to date. It has not made a provision in the accounts for any repayment of PFI credits as officers are of the view that the possibility of any form of repayment being required is too remote.</p> <p>We have reviewed the most recent communications from DEFRA in respect of the Council's PFI credits and are satisfied that there are no indications at present that these will have to be repaid.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Green</p>

Accounting policies, estimates & judgements [cont'd]

Accounting area	Summary of policy	Comments	Assessment
		<p>The Council last undertook a review of its potential liabilities in respect of closed landfill sites in 2001. It has disclosed a maximum contingent liability of £33.4m. It should carry out a further review in 2013/14 to establish the current value of any liability.</p>	
<p>Other accounting policies</p>	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p> Green</p>

Assessment

 [Red] Marginal accounting policy which could potentially attract attention from regulators

 [Amber] Accounting policy appropriate but scope for improved disclosure

 [Green] Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Gross expenditure and income were both overstated due to the firefighters' pensions transactions not being excluded from either income or expenditure.	(9,869) 9,869		0
2 Other operating income and expenditure were both overstated.	(2,389) 2,389		0
3 Financing and investment income and expenditure were both overstated in the Comprehensive Income and Expenditure Account. The figures in the supporting note (Note 10) were correct.	(851) 851		0
4 A new 'current liabilities' line has been added for amounts in relation to finance leases and PFI contracts which are repayable in the next 12 months. These amounts have been removed from the 'other long-term liabilities' line, so there is no change to the Council's net assets/liabilities.	0	(3,221) 3,221	0
Overall impact	£0	£0	£0

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. In addition, a number of trivial disclosure amendments were made following audit findings.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Note 9: other operating income and expenditure are now disclosed gross to match the figures in the Comprehensive Income and Expenditure statement.	25,106 (25,237)	Other operating income and expenditure	There is no effect on the net position in the Comprehensive Income and Expenditure Statement.
2 Note 11: National non-domestic rates funding and the revenue support grant have been adjusted to reflect the total formula grant received. In addition, some grant amounts have been reclassified in Note 39.	13,761	General Grants & Contributions	There is no change to the bottom line total for council tax and general grants and contributions

Misclassifications & disclosure changes [cont'd]

Adjustment type	Value £'000	Account balance	Impact on the financial statements
3 Note 16: A number of changes have been made to ensure that it discloses all financial instruments in line with the definition in the Code.	Various	Financial Instruments	There is no impact on the primary financial statements.
4 Note 42: Lease liabilities later than one year but not later than 5 years have been reduced following identification of a calculation error.	(2,294)	Operating Leases	There is no impact on the primary financial statements.
5 Note 42: Lease income has been re-profiled.	345	Operating Leases	There is no impact on the primary financial statements.

Unadjusted misstatements



There are no non-trivial adjustments which have not been made within the final set of financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	<ul style="list-style-type: none"> Our testing of the Council's cash balance identified that within the Networks / Confederations account there is a balance, estimated at £1,418k, that relates to academy schools and should therefore be excluded from the Council's balance sheet. 	<ul style="list-style-type: none"> The Council should make a reliable estimate of the cash held by Networks / Confederations that belongs to academy schools and exclude these amounts from its balance sheet
2.	 Amber	<ul style="list-style-type: none"> Our testing of the Council's cash balance identified that the year-end reconciliations of 120 imprest petty cash balances totalling £306k had not been completed. The total imprest amount was included in the financial statements at the year end. 	<ul style="list-style-type: none"> During our audit officers contacted all petty cash holders and requested them to complete the reconciliations. As at 20 August 2013, 109 of the balances had been reconciled. The Council should ensure that all petty cash balances are reconciled on a timely basis as part of its standard closedown procedures.

Assessment

-  [Red] Significant deficiency – risk of significant misstatement
-  [Amber] Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

Issue	Commentary
<p>1. Matters in relation to fraud</p>	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and been made aware of one relationship currently under investigation arising from the recent National Fraud Initiative (NFI) data matching exercise. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<p>2. Matters in relation to laws and regulations</p>	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
<p>3. Written representations</p>	<ul style="list-style-type: none"> We have requested a letter of representation from management, which has been drafted and will be approved by the Audit and Governance Committee at its meeting on 2 September 2013. In particular, representations will be requested from management in respect of the completeness of the related party transactions disclosure in Note 40 as one member has failed to complete a declaration of interests return for the year.
<p>4. Disclosures</p>	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A number of notes with immaterial balances are included in the financial statements: Note 18 – Landfill Allowance Trading Scheme and Carbon Reduction Commitment Allowances, Note 31 – Agency Services, Note 32 – Pooled Budgets and Note 49 – Trust Funds. The Council should assess whether these notes are still required.
<p>5. Matters in relation to related parties</p>	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
<p>6. Going concern</p>	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

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

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have reviewed the Council's strategic financial planning and decision making processes and its achievement of savings

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Our detailed findings are set out in our Financial Resilience Report.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk	Management response
<p>Communication of the medium- to long-term financial strategy, current financial position and likely financial challenges</p>	<p>Following the recommendations made in the Financial Management Public Value review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities. As with any initiative requiring behavioural change, it will take time to fully embed.</p>	<p>The Council needs to ensure that it manages the on-going impact of this cultural shift by reviewing the progress made and identifying areas for improvement. This includes monitoring the effectiveness of the new dashboard.</p>	<p>The Finance dashboard went live on 1 August 2013 and a front page s-net communications strategy is planned for early September that links to the Peer Challenge campaign - promoting financial responsibility across all staff. Senior Leader and Member buy-in to the dashboard is strongly evident.</p>
<p>Reserve balances</p>	<p>As at 31 March 2013 the Council's balance sheet shows a net liability of £39m, caused by an increase in the long term pension liability of £134m. We do not consider this to be a significant risk to the Council in the medium term, but is something that should be considered as part of long-term planning.</p>	<p>The Council should continue to review the appropriateness of reserve levels and monitor its liquidity to ensure financial resilience is maintained.</p>	<p>Reserves are reviewed on an on-going basis (most recently at July Cabinet 2013 where Cabinet decided that the Severe Weather Reserve of £5m be used to tackle damaged roads during 2013/14. Reserves will be further reviewed as part of the MTFP (2014-19) process. The pension fund's actuary is currently undertaking the triennial review. This will recommend contribution rates and deficit reduction payments, which the council will consider as a part of the MTFP (2014-19) process</p>

Residual Risk identified	Assurances obtained	Conclusion on residual risk	Management response
<p>Medium Term Financial Plan</p>	<p>The Council has already identified schemes to reflect the majority of savings required within the MTFP but as at 31 March 2013 £79m of savings are still to be identified to 2017/18.</p>	<p>The Council will need to update the MTFP for the implications of SR13 as soon as they can be identified. Due to the ongoing increasing demand for school places caused by a combination of population increases and migration, the Council should continue to review the capital spend required in the mid to long term in order to meet its statutory obligations.</p> <p>Going forward the Council should consider adding the consideration of Adult Social Care volume and schools places as key risks within the relevant MTFP section, although this will not affect the level of consideration it has applied over these areas.</p>	<p>The Cabinet agreed a report on 23 July 2013 that refreshed the MTFP (2013-18) based on the latest information (including SR 2013 and further efficiencies to be delivered – i.e. part of the £79m). During summer 2013 officers will continue to work on MTFP plans in advance of further member workshops from mid-September up until the completion of MTFP (2014-19) in January 2014.</p> <p>To be reflected in S25 report in Feb 2014 budget report.</p>
<p>Monitoring of savings</p>	<p>During 2012-13, the Council achieved recurrent savings of £66m against a target of £71m, although countervailing (one off) savings ensured that an overall revenue underspend was achieved in-year.</p>	<p>During the course of our review we confirmed that countervailing savings were not always identified during the monitoring process. The Council should consider the formal reporting of this so that countervailing savings are clearly identified and their impact on service provision is better understood.</p>	<p>Starting from July 2013 the monthly budget monitoring report to Cabinet highlighted 'countervailing' (or one off) savings separately. With effect from Sept 2013, the level of challenge and review of savings by the Corporate Board will be enhanced.</p>
<p>Partnership working</p>	<p>The Council has begun to use its size and position to create better opportunities for both itself and key partners (e.g. through procurement reviews and joint ventures).</p>	<p>The Council should look to increase the use of this position going forward in order to maximise value for money.</p>	<p>In July 2013 the Cabinet agreed an Investment Strategy paper – aimed at optimising its use of assets - and an Innovation update – approving invest to save support up to 2016/17. Several services are developing alternative methods of delivery papers that are expected to seek Cabinet approval from September 2013.</p>

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees	Per Audit plan £	Actual fees £
Council audit	189,464	189,464
Grant certification	4,200	4,200
Total audit fees	193,664	193,664 [estimated]

Fees for other services

Service	Fees £
None	Nil

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.

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	We recommend as best practice that the Council should disclose in the notes to the accounts the value of land and buildings relating to schools that have not been recognised in the financial statements.	Low	The Council will evaluate the need for this in the 2012/14 accounts based on the requirements of the Code and the cost to the council of obtaining such valuations.	December 2013 Finance Manager (Assets & Accounting)
2	The Council should ensure it considers the results of the rolling revaluation programme on the remainder of the asset class.	Medium	The Council will consider the impact of changes in valuation of the remainder of the asset class where there are significant movements in the formal valuations carried out, to compliment the annual impairment review already undertaken each year.	December 2013 Finance Manager (Assets & Accounting)
3	The Council should carry out a review of its potential liabilities in respect of closed landfill sites in 2013/14 and consider whether a provision is required.	Medium	A review of the Council's potential liabilities in relation to closed landfill sites will be undertaken during 2012/13 in order to update the contingent liability disclosure and re-assess the need for a provision.	By March 2014 Finance Manager (Assets & Accounting)

Appendix A: Action plan [cont'd]

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	The Council should make a reliable estimate of the cash held by Networks / Confederations that belongs to academy schools and exclude these amounts from its balance sheet.	Medium	The Councils plans to use pupil numbers, adjusted for deprivation factors, in order to split the cash balances held by networks and confederations into the elements relating to academies as opposed to SCC maintained schools. In addition the Council plans to include additional instructions in it's 'Financial Guidance to Networks' document which specifies that this will be the basis of apportioning balances should a network/confederation be dissolved, unless an alternative method is agreed by the network itself. Where the network is administered by an academy we will require an audited year-end statement confirming the balance held.	December 2013 Finance Manager (Assets & Accounting) & Senior Principal Accountant (Schools Funding)
5	The Council should ensure that all petty cash balances are reconciled on a timely basis as part of its standard closedown procedures.	Medium	The Council will ensure that timely chasing of the year-end certifications is undertaken in future years.	April 2014 Finance Manager (Assets & Accounting)
6	The Council should remove notes with immaterial balances from its financial statements as part of its 'decluttering' exercise.	Low	The council will consider the value of the notes in question to readers of the accounts, with a view to removing for future years	December 2013 Finance Manager (Assets & Accounting)

Appendix B: Audit opinion

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

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

DRAFT Opinion on the Authority financial statements

We have audited the financial statements of Surrey County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Surrey County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
 securing financial resilience; and
 challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Surrey County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion

Andy Mack
 Director

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

Grant Thornton House
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 Easton Square
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x September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 18 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	Yes [see page 13]
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	Yes [see page 13]
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	Yes [see page 14]
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	Yes [see page 14]
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	Yes [see page 14]
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	Yes - Best Practice Recommendation [see page 9]
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Yes [see page 10]
Heritage assets	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash & cash equivalents	Bank & Cash	None		No	Yes [see page 17]
Borrowing and other liabilities (long & short term)	Debt	None		No	Yes [see page 13]
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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