



# The Audit Findings for Surrey Fire Fighters' Pension Fund

**Year ended 31 March 2013**

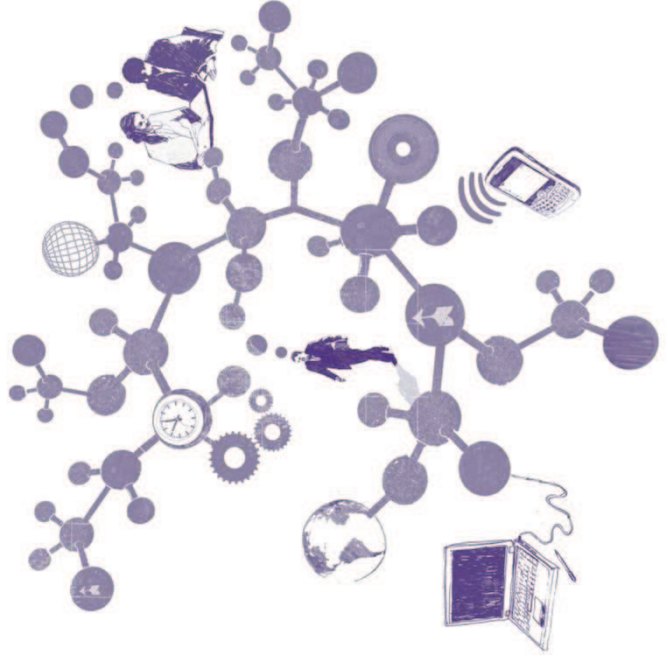
20 August 2013

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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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03. Fees, non audit services and independence
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## Executive summary

### **Purpose of this report**

This report highlights the key issues arising from our work on Surrey Fire Fighters' Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013.

### **Introduction**

In the conduct of our work we have had to change our planned procedures, which we communicated to you in our Audit Plan dated 3 July 2013. On 22 July 2013 the Audit Commission advised that there is no longer a requirement to give a specific opinion on the Fire Fighters' Pension Fund within the overall opinion on Surrey County Council's financial statements. We therefore completed our review of the financial statements, including the accounting policies and key judgements and estimates, and carried out testing of journals. We did not undertake any substantive testing of contributions receivable and benefits payable as neither of these figures are material to Surrey County Council's accounts.

### **Key audit and financial reporting issues**

#### **Financial statements opinion**

We received draft financial statements and accompanying working papers at the start of our audit.

We have not identified any adjustments affecting the Fund's financial position or made any amendments to improve the presentation of the financial statements.

We are no longer required to issue a separate opinion on the Fund's financial statements.

#### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**August 2013**

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## Section 2: *Audit findings*

- 01. Executive summary
- 02. Audit findings**
- 03. Fees, non audit services and independence
- 04. 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, issued to the Audit and Governance Committee on 8 July 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**

Following guidance issued by the Audit Commission on 22 July 2013 we have changed our Audit Plan as previously communicated to you on 8 July 2013. This advised that there is no longer a requirement to give a specific opinion on the Fund within the overall opinion on Surrey County Council's financial statements. As none of the figures within the Fund's financial statements are material to Surrey County Council as a whole, we therefore did not undertake our planned substantive testing of contributions receivable and benefits payable. Our work was limited to:

- reviewing the financial statements for compliance with the Code
- agreeing the financial statements and notes to the ledger and supporting working papers
- assessing the accounting policies, key judgements and estimates; and
- testing of journals.

### **Audit opinion**

We are no longer required to issue a separate audit opinion on the Fund's financial statements.

## 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.

	<b>Risks identified in our audit plan</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
1.	<p><b>Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Surrey Fire Fighters' Pension Fund since:</p> <ul style="list-style-type: none"> <li>• The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions.</li> <li>• Revenue contributions are made by direct salary deductions from Surrey County Council. They are directly attributable to gross pay making any improper recognition unlikely.</li> <li>• Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.</li> </ul>	<p>Our work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b> Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our 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 judgments.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Benefit payments and transfers on account of leavers</b></p>	<p>Benefits improperly computed/claims liability understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>agreed the figures in the financial statements to the ledger and supporting working papers</li> </ul>	<p>Our work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Contributions</b></p>	<p>Recorded contributions not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>agreed the figures in the financial statements to the ledger and supporting working papers</li> </ul>	<p>Our work has not identified any significant issues in relation to the risk identified.</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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Contributions represent the total amounts receivable from the Council and the pensionable employees. No provision has been made for employee and employer contributions for sums due on pay awards not settled.</li> <li>Transfer values received are accounted for on a receipts basis.</li> </ul>	<ul style="list-style-type: none"> <li>Accounting policy is adequately disclosed and in line with the Code</li> <li>Minimal judgement is involved in determining when revenue should be recognised.</li> </ul>	 Green
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Estimating the net liability to pay pensions depends on a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 1% decrease in the discount rate assumption would result in an increase in the pension liability of £8.3m.</li> </ul>	<ul style="list-style-type: none"> <li>Key judgements and estimates are adequately disclosed in the Explanatory Foreword to the Fire Fighters' Pension Fund accounts.</li> </ul>	 Green
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting</li> </ul>	<ul style="list-style-type: none"> <li>We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make.</li> </ul>	 Green

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

## Adjusted and unadjusted misstatements, misclassifications & disclosure changes, internal controls

We did not identify any misstatements, misclassification or disclosure changes, or any significant control weaknesses during the course of our work.

## Other communication requirements

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

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period and no other issues have been identified during the course of our procedures</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from Surrey County Council which also covers the Fund.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: 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

<b>Fees</b>	<b>Per Audit plan £</b>	<b>Actual fees £</b>
Fund audit	Included within main audit fee	

### Fees for other services

<b>Service</b>	<b>Fees £</b>
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.

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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

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](http://www.audit-commission.gov.uk)).

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

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

It is the responsibility of the Fund 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 Fund 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 unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓





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