



# Surrey County Council Audit Progress Report and Sector Update

**Year ending 31 March 2022**

November 2022



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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.

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# Introduction

## Your key Grant Thornton team members are:

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a council; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at November 2022

## Financial Statements Audit

We commenced our initial planning for the 2021/22 audit in March 2022 and our work is complete. Our work culminated in the Audit Plan that was presented at the June Audit and Governance Committee meeting. Our work on your draft financial statements commenced in July and in addition includes:

- Updating review of the Authority's control environment
- Updating understanding of financial systems
- Reviewing of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements
- Work on emerging accounting issues.

At the time of writing, our review of the group audit and pension fund is in progress but not yet complete.

We received the draft accounts on 05 July 2022 with the audit scheduled to be completed by 30 September. We have experienced delays in receiving key working papers and timely responses to audit queries, which resulted in us being unable to select our samples to test as quickly as we would normally expect. As at the date of writing, we are currently awaiting Council Tax and NNDR updates to the accounts (finance team awaiting final return from a district), audited reports and supporting working papers from component auditor of Halsey Garton, queries from your valuation expert as well as on-going audit queries including journal samples.

It has taken some members of the audit team longer than we would have liked to review and follow up on information provided by the Council, however we believe that this is in part due to having to put things down and pick other things up and therefore not being available when information was provided, but we recognise that there are improvements we can make in this regard.

Changes in the Pension Fund finance team have also resulted in some delays to the audit process as a result of a loss of corporate knowledge in relation to journals and adjustments made to arrive at the draft accounts.

The Pensions finance team have been working hard to provide answers to queries.

In addition, we are still awaiting resolution to the national issue in respect of the valuation and accounting for Infrastructure Assets, as noted over the page.

We have been utilising a query log to track and resolve outstanding items, which was updated and shared by the audit team weekly. Weekly meetings are held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process is as smooth as possible so all involved share the same understanding of progress.

As we had not met the end of September target date for completing the audit, we sought to borrow some additional resources to assist us in doing so in October, as capacity in the audit team was limited this was not possible. As a result we have had to seek further staff to assist us to complete the audit, and those staff are due to commence working on the audit from 27 November 2022, with the aim of finishing the audits by 31 December 2022. We will estimate the additional cost to the audit and pension fund at the conclusion of the audit and discuss with management. The final cost will be reported to the committee in our Audit Findings Report, which will be presented to the next Audit and Governance Committee meeting.

## Key accounting developments – infrastructure assets

In recent months, an issue relating to the reporting of infrastructure assets has led to delays in local authority audits, principally for highways authorities. The issue is a technical accounting one and arises principally because of information availability relating to these assets.

As a sector wide issue, CIPFA has established a task and finish group to address the issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure.

# Progress at November 2022 (cont.)

**In addition, CIPFA launched an urgent consultation on temporary changes to the code to resolve the issue.**

As at the date of writing, the NAO has shared the draft wording of a Statutory Instrument which is expected to be finalised by DLUHC at the end of November. In the meantime, preparers of Local Authority accounts must continue to comply with the CIPFA Code and report infrastructure assets gross and derecognize assets components on replacement.

This is a material issue which impacts Surrey County Council as the Council hold over £470m of infrastructure assets as at 31 March 2022. Your finance team are aware of the issue and have responded to CIPFA's consultation. There is regular dialogue between us and your finance team on the issue to ensure recent updates/guidance is actioned as soon as possible

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. At the time of writing, our work is substantially complete and a draft Annual Auditors Report will be issued to Management by the end of November 2022 for consideration.

At present we have not identified any significant weaknesses in the Council's arrangements in respect of Financial Resilience, Governance or Improving Economy, Efficiency or Effectiveness in its use of resources.

The final Auditor's Annual Report will be presented at the January 2023 committee meeting.

## Audit Fees

As set out in our joint Audit and Pension plan presented to the Audit and Governance Committee in June 2022, our proposed fee for the group audit is £214,948 and Pension Fund is £40,571. The proposed fees excludes IAS 19 assurance letters to your admitted bodies and fee overruns arising. We will discuss these additional audit costs with management and report back to the committee at the January 2023 meeting.

# Progress at November 2022 (cont.)

## Other areas

### Certification of claim and return

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2021/22 return is currently underway and should be complete by the end of November 2022. There was no significant issue arising to report to members of the Audit and Governance Committee.

### Meetings

We continually meet with Finance Officers as part of our regular liaison meetings and continue to discuss with finance staff emerging developments and to ensure the audit process is smooth and effective. We also regularly attend the Audit and Governance Committee meetings. We are scheduled to meet with your Chief Executive shortly to discuss our findings from Value for Money review and progress on the financial audit.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<b>Audit Plan (group plan and pension fund plan)</b> We are required to issue a detailed Audit Plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	June 2022	Complete
<b>Audit Findings Report</b> The Audit Findings Report.	30 September 2022	31 December 2022
<b>Auditors Report</b> This includes the opinion on your group financial statements.	30 September 2022	31 December 2022
<b>Auditor's Annual Report</b> This Report communicates the key issues arising from our Value for Money work.	30 November 2023	Not yet due
<b>Teachers Pensions Scheme – certification</b> This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	30 November 2022	Not yet due



# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government



# Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

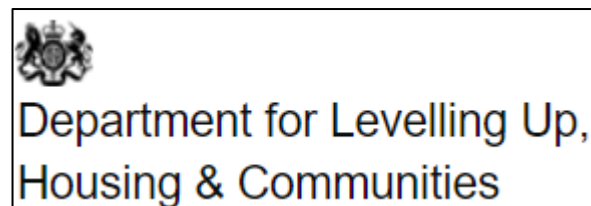
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.



# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

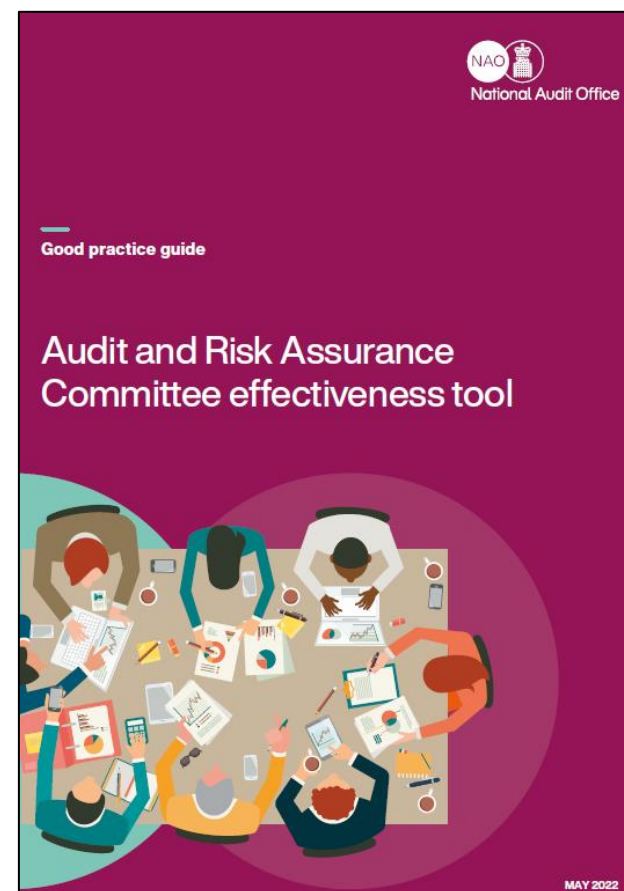
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

# Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

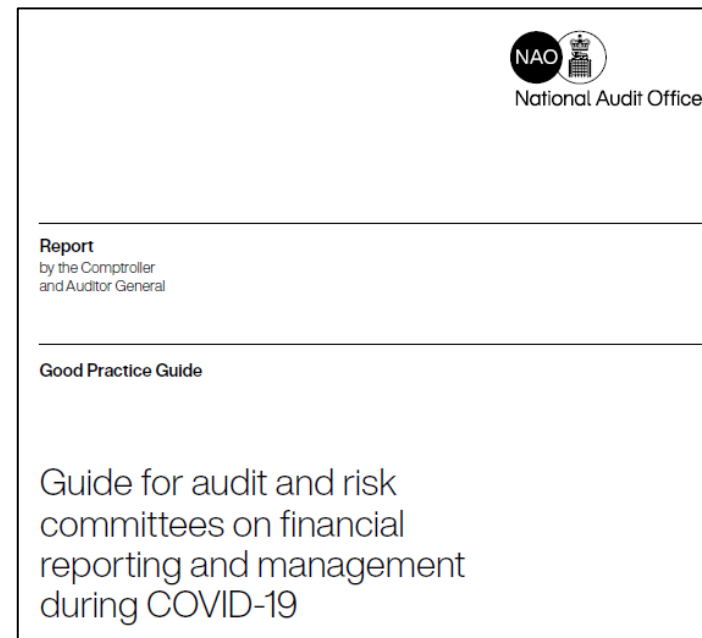
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error



# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

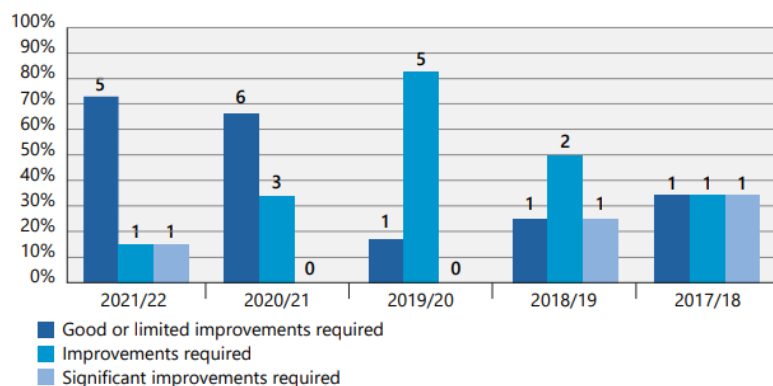
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required. The 2020/21 Audit of Surrey County Council was in the limited improvements required category, which is a positive outcome.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

**Our assessment of the quality of financial statement audits reviewed**



The full report can be found [here](#).

The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'. The ICAEW identified one of our files requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)





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