Surrey Pension Fund Indicative Audit Plan

Financial year ended 31 March 2023

June 2023

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 Pension Fund 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.

Key matters

National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. The pressures on household income have raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Fund Performance

During the year, Surrey Pension Fund Committee has continued to implement the investment strategy. Overall, the net position has improved from a surplus of £101m at 31 March 2022 to a surplus of £1,110m at 31 March 2023. In determining the surplus position, liability values have fallen since 31 March 2022 by £1,107m to £4,150m as at 31 March 2023 due to an increase in the assumed level of future investment returns (the discount rate) which has been driven, in part, by a significant rise in long dated gilts yields over the period from 31 March 2022 to 31 March 2023. Similarly, the value of the assets as at 31 March 2023 of £5,260m is lower than that as at 31 March 2022 of £5,358m, due to negative asset returns which offset the reduction in the liabilities due to higher assumed investment returns. LGPS funds which have moved into surplus which provides revised accounting complexities which CIPFA are currently considering.

Triennial valuation

The Triennial Actuarial Valuation sets out the contribution rate for each employers in the Fund and help ensure solvency of the Pension Fund. This will ensure long term value for our beneficiaries and employers within the Fund. The funding position at 2022 shows a stronger position than in 2019. The Council's required investment return to be 100% funded is now 4.3% pa (4.5% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 72% (65% at 2019). The overall rate for the fund has been maintained with an increase in funding level to 102% from 96% at the 2019 valuation.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Deputy Chief Executive and Executive Director of Resources.
- We will continue to provide you and the Audit and Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators.
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk regarding management override of control – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Surrey Pension Fund ('the Pension 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 agreed 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 Surrey Pension Fund. We draw your attention to both of these documents.

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 Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee).

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Pension 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 Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk of management override of controls.
- The risk that the valuation of level 3 investments and direct property investments in the accounts is materially misstated

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 £73m (PY £50m) for the Pension Fund, which equates to 1.4% (PY 1%) of your projected net assets as at 31 March 2023.

We have determined a separate Fund account materiality for non-investment related elements to be £21m which equates to 10% of Fund expenditure as at 31 March 2023.

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 £3.7m (Fund account £1m).

Audit logistics

Our planning visit will take place in June and July and our final visit will follow immediately after. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £64,071 for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers. The fee estimate includes work on IAS19 assurance letters to scheduled and admitted bodies.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

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	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the 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 Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Revenue is largely in the form of employee and employers contributions from the Council and Admitted and Scheduled bodies plus investment income from the fund managers so is relatively easy to predict. Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk at for the Surrey Pension Fund.	
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, 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; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£676 million at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions 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. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023.	We will: • evaluate management's processes for valuing Level 3 investments; • 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; to ensure that the requirements of the Code are met; • independently request year-end confirmations from investment managers and the custodian; • 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 2023 with reference to known movements in the intervening period; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; • where available review investment manager service auditor report on design and operating effectiveness of internal controls.; • we will evaluate management's processes and assumptions for the calculation of the estimated direct property valuation, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; and • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 2 Investments	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	We will: • gain an understanding of the Fund's process for valuing Level 2 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; • review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances; • independently request year-end confirmations from investment managers and custodian; and • review investment manager service auditor report on design effectiveness of internal controls.
Contributions	Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	We will: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	We will: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of lump sums and associated individual pensions in payment by reference to member files; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Other risks identified continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Actuarial Present Value of Promised Retirement Benefits	The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.3 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation; • assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • test the consistency of disclosures with the actuarial report from the actuary; and • 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.
Fraud in Expenditure Recognition	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 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 6 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 6.	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.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Local Government Pension Scheme triennial valuation	-Pension Fund	Regulation 62 of the Local Government Pension Scheme (LGPS) requires pension fund administering authorities to obtain an actuarial valuation of the fund's assets and liabilities every three years. Triennial funding valuation reports as at 31 March 2022 were required to be obtained by 31 March 2023. The LGPS is a complex pension scheme with numerous participants, investment portfolios, and various financial and actuarial assumptions. The valuation process involves assessing the fund's assets and liabilities, projecting future cash flows, and making assumptions about investment returns, inflation rates, life expectancies, and other variables.	We will: • review the methods used to calculate the estimate, including the models used • review the actuarial reports and assess the reasonableness of the assumptions made in the reports. • perform tests on the accuracy and completeness of the data used in the valuation process, including member data. This includes examining source documents and reconciling data to supporting records. • evaluate the adequacy and accuracy of the disclosures related to the LGPS triennial valuation within the financial statements.

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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 respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Other matters

Other work

The Pension Fund is administered by Surrey (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund 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 carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Pension Fund's financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	Pension Fund Journal processing During the year, there was no journal control over separation of duties Pension Fund between journal input, processing or authorisation. Risk of override of control over journals, management estimates and transactions outside the course of business **Recommendation** Establish separation of duties over pension fund journal controls between journal input, processing or authorisation	**Management response (Feb 2023)** This was recognised by pension team management and the Turnaround programme for the pension team led to an organisational restructure in May 2022, which provided the service with additional financial accounting resilience to address this. The reconfigured team will allow appropriate controls to be implemented.
In progress	**Pension Fund Level 3 investments** From our review of the sample of investment audited accounts, *we identified 12 investments totalling £51m where the auditor's report on the investments was unqualified but reported an 'emphasis of matter' on going concern, valuation other than FRS102 or loan guarantee expected to be withdrawn. One investment was in liquidation.* Risk of Fund investment valuations may be materially overstated **Recommendation** We recommend management put in place additional procedures that include regular reviews of Fund investments audited accounts and auditor's report for modification or qualification of opinion and where Funds are in liquidation. These procedures should specify the actions to be taken where issues are identified and who is responsible for carrying out the actions.	**Management response (Feb 2023)** As well as relying on reports from our custodian, we receive quarterly reports from Fund Managers, which are considered and inform standing quarterly reports on Investment & Funding and Engagement & Voting to our Pension Fund Committee. In addition to the quarterly reports, we have annual 'deep dives' on funds in a particular asset class. These deep dives take the form of face to face manager meetings, which are attended by officers and our Independent Investment Advisor. Our Independent Investment Advisor reports the details of these meetings to the Pension Fund Committee at their quarterly meeting. In addition to the officer expertise and Independent Advice, Surrey also contracts Mercer as an Investment Consultant. Mercer oversee all the investments in the Fund. Mercer have a wide reaching research capability, which enables them to advise on material concerns with any of our holdings – and have brought several items to our attention in the past. We will review whether further review processes might be practical to provide additional assurance. In addition to the officer expertise, Independent Advice, and Investment Consultant activity, we will review whether further review processes might be practical to provide additional assurance.

Progress against prior year audit recommendations - continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Pension Fund Current assets: Sundry debtors Note 11** As part of our review of debtors, we noted that some long standing debtors (compensation added years – CAY) which date back to 2004 which total circa £14m out of the Sundry debtors of £30.5m. Additionally, we noted one CAY invoice from our 2021/22 sample which was overstated by the sum of £16.4k that dates back 2017. The overpayment continues to be carried over year on year without investigation. Risk that sundry debtors may be misstated **Recommendation** Management is undertaking an exercise to clear the backlog which we collaborated to recent invoices raised in FY 22/23. We recommend management continue the exercise of invoicing long outstanding CAY debtors or write them off if they are no longer collectable. The exercise should be expanded to review and clear all old CAY overpayments.	**Management response (Feb 2023)** The CAY position is well understood and documented and the backlog position is being addressed. A programme to recover old debtors has been successful. New procedures from April 2023 should ensure non-recurrence.
In progress	**Pension Fund Level 2 investments - derivatives** As part of our review of Fund investments, we audit the valuation of derivatives by obtaining sufficient appropriate audit evidence about whether accounting estimates and related disclosures are reasonable, in the context of the applicable financial reporting framework. We experienced challenges and delay in the audit of derivatives as management and their fund manager could not provide the contract notes for the derivatives. **Recommendation** We recommend management routinely include copies of contract notes for derivatives as part of the evidence obtained from their Fund managers annually.	**Management response (Feb 2023)** We will follow up on the recommendation to obtain contract notes for derivative positions at the period end.
In progress	**Pension Fund Membership Note 1** Altair system is a live system that is used to derive the number of pensioners and deferred pensioners. The disclosure should be based on the numbers as at 31 March 2022. The audit evidence provided was obtained as at July 2022 of the position as at 31 March. **Recommendation** Recommend your closedown procedures include obtaining and retaining a screen shot of Altair system on 31 March to support the number of pensioners and deferred pensioners..	**Management response (Feb 2023)** We have instigated the running of specific quarterly membership reports for consistent presentation of member numbers.

Our approach to 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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the net assets as at 31 March 2023 for the Pension Fund. Materiality at the planning stage of our audit is £73m, which equates to 1.4% of your net assets as at 31 March 2023. We have determined a separate Fund account materiality for non-investment related elements as at 31 March 2023. Materiality at the planning stage of our audit is £21m, which equates to 10% of Fund expenditure as at 31 March 2023.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	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.
3	**Other communications relating to materiality we will report to the Audit 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 and Governance 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.	We report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £3.7m (Fund balances £1m). 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.

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Our approach to 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.

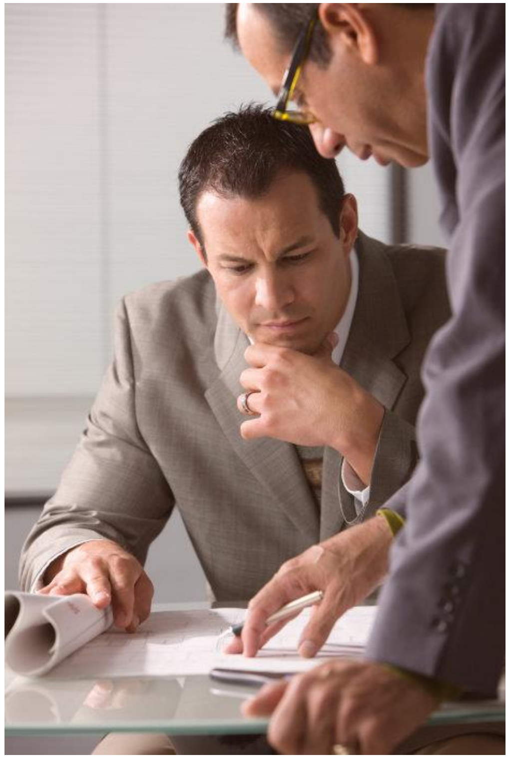
Overall materiality.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	73,000,000	This benchmark is determined as a percentage of the Funds Investment Assets, which has remained at approximately 1.4%.
Performance materiality	51,100,000	Performance Materiality is based on a percentage (70%) of the overall materiality.
Trivial matters	3,650,000	This balance is set at 5% of overall materiality

Fund Account materiality.

	Amount (£)	Qualitative factors considered
Materiality for the Fund Account	21,000,000	This benchmark is determined as a percentage of the Funds expenditure, which has been determined as 10%
Performance materiality	14,700,000	Performance Materiality is based on a percentage (70%) of the overall materiality.
Trivial matters	1,050,000	This balance is set at 5% of overall materiality

Fund account materiality will be applied to the following fund balances, employer and employee contributions, transfers in, other income, benefits paid or payable, payments to and on account of leavers, investment income (annuity income only) and transfer between sections (if any). We will apply the overall materiality to all other balances.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 17.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting	Streamlined ITGC design assessment
SAP, E-Suite, Wisdom	Payroll	Streamlined ITGC design assessment
Altair	Pensions Administration system	Streamlined ITGC design assessment

Audit logistics and team

Planning and risk assessment

Interim audit
June - July

Audit & Governance Committee
July

Audit Plan

Year end audit
July - September

Audit & Governance Committee
November

Audit Findings Report

Audit opinion

Ciaran McLaughlin, Key Audit Partner
Ciaran is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee, the Chief Executive and the Corporate Director Resources. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Ciaran will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Ciaran will sign your audit opinion.

Ade Oyerinde, Director
Ade is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee, CDR and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Ade will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Hal Parke, Manager
Hal is responsible for management and review of audit fieldwork, final accounts work. He will monitor the deliverables, liaise with your finance team and address any significant issues with senior management.

Ooha Putthuru, Assistant Manager
Ooha is responsible for management and delivery of audit fieldwork, final accounts work. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Audited Entity responsibilities

Where audited entities 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 an entity 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 an entity 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
- 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 for testing
- 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 and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Surrey Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £29,621. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Deputy Chief Executive and Executive Director of Resources.

Audit fees

	Estimated Fee 2021/22	Proposed fee 2022/23
Surrey Pension Fund Audit (excluding VAT)	£TBC	£64,071

Assumptions

In setting the above fees, we have assumed that the Pension Fund 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 (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Fees

Fee analysis

Audit fees	Estimated fee 2022/23
Scale fee per PSAA for 2022-23	29,621
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	500
ISA 540	3,600
ISA 315	3,000
Additional journals testing	2,000
Other local factors taking account of this takes account the likelihood of extra sampling, testing, new guidance etc.	5,350
IAS19 Assurance letters to scheduled and admitted bodies	20,000
Estimated fee	64,071

Independence and 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.

In this context, we disclose that:

Ciaran McLaughlin, the Key Audit Partner is currently serving their 7th year on the engagement. As audit year 2022/23 is the final year of our audit engagement, PSAA has granted an extension from normal rotation. We have mitigated the familiarity threat by through 'an additional partner reviewing their key judgements to ensure that these are not influenced by the familiarity'.

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.

Independence and non-audit services

Other services

No other services provided by Grant Thornton were identified.

Communication of audit matters with those charged with governance

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 including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
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	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton

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