



The Audit Findings for Surrey County Council and Surrey County Council Pension Fund

Year ended 31 March 2022

October 2023 Final

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit and Governance Committee.

**Ciaran McLaughlin
For Grant Thornton UK LLP
October 2023**

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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Surrey County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work is being completed remotely during July – September 2022 and December 2022 - October 2023. Our findings are summarised on pages 5 to 33.

We note adjustments to the Deficit on Provision of Services of £55.6 million largely as a result of late receipt of Council Tax and NNDR returns from the district and borough councils. The material adjustment is reflected in both Surrey's single entity and group accounts.

Our testing of Pension Fund investments identified potential understatement of £28m due to timing differences of valuation between 31 December 2021 and 31 March 2022. Management have not amended the pension fund account for these timing difference as in aggregate they were not material.

Our work identified within the financial statements a number of disclosure amendments agreed with management (pages 44 to 50) which are set out in Appendix C. We raised recommendations for management as a result of our audit work which are set out in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion on the group financial statements including the Pension Fund.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our audit report opinions will be unmodified unqualified opinions on the group and Council and Pension fund statements.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have completed our VFM work and our detailed commentary set out in the Auditor's Annual Report, was presented to the Audit and Governance Committee in January 2023. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusion on your VFM arrangement remain unchanged.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's Pension fund Annual report and Whole of Government Accounts.

Significant Matters

We did not identified any significant matters arising during our audit other than delays in receipt of key Pension Fund and Council working papers and timely responses to audit queries. Further details can be found on pages 24 to 28.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and presented to the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our joint Audit Plan, as communicated to you in May 2022. However, management informed us of a change in group structure of Halsey Garton Residential Limited (HGR). HGR was originally part of Halsey Garton Property Limited group up until May 2020. It became a subsidiary of Surrey County Council after that date. Details of the additional work we undertook are set on pages 15 and 16 of this report.

Conclusion

We presented our interim findings in the Audit Findings Report presented at the Audit and Governance Committee meeting in March 2023. Our audit of the Council's financial statements is complete subject to outstanding closing queries below being resolved, we anticipate issuing unqualified audit opinions in October 2023. We also anticipate issuing a consistency opinion on the Pension Fund Annual Report on the date we issue the opinion. The outstanding items include the following:

- receipt and review of management representation letters for group and pension fund audits,
- review of the final set of financial statements including Pension Fund. Accounts.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on pages 24 to 28, we have extended our audit review period due to delays in receipt of working papers and audit follow up queries. We estimated the additional cost to the audit and pension fund in Appendix D. The final cost will be reported to committee and is subject to approval by PSAA.

2. Financial Statements



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.

Materiality levels remain the same as reported in our joint audit plan issued in May 2022. We detail in the table across our determination of materiality for Surrey County Council and group.

	Council amount planning (£)	Council amount final (£)	Group amount Planning (£)	Group amount Final (£)	Pension Fund amount planning (£)	Pension Fund amount final (£)
Materiality for the financial statements	26,500,000	26,500,000	26,600,000	26,600,000	50,000,000	50,000,000
Performance materiality	18,500,000	18,500,000	18,600,000	18,600,000	37,500,000	37,500,000
Trivial matters	1,300,000	1,300,000	1,300,000	1,300,000	2,500,000	2,500,000



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Management override of controls</p> <p>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 Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>Council, group and Pension Fund</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluation of the design effectiveness of management controls over journals. • Analysis of the journals listing and determined the criteria for selecting high risk unusual journals. • Testing unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration. • Gaining an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. <p>Our work on journals took longer than planned as working papers provided by the Council and Pension Fund did not provide the supporting information required to enable us to validate the journal items selected for testing. We note Journals are self-approving, meaning that they can be posted without an effective form of review. This is mitigated by review of unusual balances. Additionally, there is no limit to the value of a journal that can be posted by staff with access to post journals - all staff with access can post journals of any value. Changes in staffing at the Pension Fund have exacerbated this situation. This has necessitated a number of meetings and requests for further information to enable us to corroborate and assess the appropriateness of each sample journal. Additionally, during the year, there was no journal control over separation of duties between journal input, processing or authorisation for the Pension Fund.</p> <p>Our review is complete. There are no other significant issues arising from our review to report to those charged with governance.</p>



2. Financial Statements - Significant risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Improper revenue recognition</p>	<p>Council, group and Pension Fund</p>	<p>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.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams and non group income which was not material, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Surrey County Council including the Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk at for Surrey County Council and Surrey County Council Pension Fund.</p>
<p>Valuation of land and buildings</p> <p>The Council carries out a rolling programme of valuations that ensures all land and buildings required to be measured at current value is revalued at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.3 billion as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022.</p>	<p>Council</p>	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluate the competence, capabilities and objectivity of management's valuation expert. • write to the valuations expert to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • engage our own auditor's valuation expert to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • assess the value of a sample of assets in relation to market rates for comparable properties. <p>We challenged your valuer on the appropriateness of assumptions used in depreciation replacement costs (DRC) assets with a combined value of £88m. Specifically, inputs in DRC valuations included lower than industry standards for external works (10%) and professional Fee (6%). Our valuation expert based on studies found variability in external factors resulting in a wide range of external work percentages of between 9% and 42% with an average of 25.8% and adopting a standard 10% was an oversimplification of the process. Similarly, industry standard for professional fees range between 12% – 15% compared to the 6% adopted by the Council's valuer. The next impact of both is potential understatement of DRC assets. We undertook additional work on DRC assets setting an expectation using industry averages and reached a conclusion that DRC assets were potentially understated by £8.7m. Managements view was that the difference was not material and opted not to amend the value of DRC assets. We are not minded to challenge managements assertion in this regard.</p>

2. Financial Statements - Significant risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Valuation of Investment Property</p> <p>The Council revalues its Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£122 million as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022.</p>	Council	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluate the competence, capabilities and objectivity of the valuation expert. • write to managements valuation exert to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • engage our own auditors valuation expert to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Council's records and financial statements. • assess a sample of Investment Properties in relation to market rates and rental yields for comparable properties. • test the reasonableness of the assumptions used by the valuer in valuing Investment Properties. <p>We identified some presentational issues which management have agreed to amend. Details are set out in Appendix C.</p>
<p>Valuation of the pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.1 billion in the Council's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	Council	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and 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 pension fund valuation. • assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • assess the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the liability. • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the NAO's consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. <p>Our work is complete. Details of the findings from the Pension Fund audit are set out on the next page.</p>

2. Financial Statements - Significant risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Valuation of Level 3 Investments (Annual revaluation)</p> <p>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.</p> <p>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 (£494 million as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions</p> <p>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.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022</p>	Pension Fund	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • 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 2022 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 <p>From our sample testing of Level 3 investments, 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.</p> <p>We carried out additional procedures on these 12 investments to 30 September 2022 and found the valuation between 31 March and 30 September were not materially different.</p> <p>Additionally, for one property unit trust with a value of £18.5m, audited accounts are not produced by the fund as it is an in-house pooled pension investment fund. We carried out additional procedures including agreeing to valuation statement at year end. The valuation was not materially different as at year end and reviewing a service auditors report covering the controls over the fund managers investment valuation processes.</p> <p>Overall, our testing identified a £28m difference due to timing differences. The draft accounts were based on information available at the time they were produced, mainly based on 31 December 2021 information, adjusted for cash movements. Our audit work considered this information and additional information related to valuations up to 31 March 2022, which show that the value of the investments could be £28m higher than disclosed in the accounts. The pension fund account has not been amended for the timing difference as it is not material.</p>

2. Financial Statements - Other risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>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 County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply.</p>	Council and Pension Fund	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • 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. <p>Our review is complete. No significant issue arising from our review to report to those charged with governance.</p>
<p>Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note Infrastructure assets includes roads, highways, streetlighting and coastal assets. Last year the Council spent circa £78m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £432m which is over 15 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost.</p>	Council and Group	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • reconcile the Fixed Asset Register to the Financial statements • using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets • obtain assurance that the UEL applied to Infrastructure assets is reasonable • document our understanding of management’s process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated <p>The Department for Levelling Up, Housing and Communities issued an update in December 2022 to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. The Council has opted to adopt the statutory override and amended the infrastructure disclosures. We reviewed the amendments and made recommendations to management to ensure infrastructure accounting policy was updated to be consistent with the statutory override disclosed.</p> <p>Our review is complete. No other significant issue arising from our review to report to those charged with governance.</p>

2. Financial Statements - Other risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Accuracy and presentation of the Private Finance Initiative (PFI) and similar contracts liabilities and associated disclosures</p> <p>You have three schemes to be accounted for as PFI arrangements. These include waste PFI scheme, a Street Lighting scheme and a Care Homes scheme.</p> <p>The total liability relating to these schemes on prior year balance sheet was £98m.</p> <p>As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information, we have categorised them as a significant risk of material misstatement</p>	Council	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • review your PFI models and assumptions contained therein. • compare your PFI models to previous year to identify any changes. • review and test the output produced by your PFI models to generate the financial balances within the financial statements. • review the PFI disclosures to assess whether they are consistent with International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models. <p>Our review is complete. No significant issues arising from our review to report to those charged with governance.</p>
<p>Actuarial Present Value of Promised Retirement Benefits</p> <p>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.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£8.0 billion as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p>	Pension Fund	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • 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. • 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. <p>Our review is complete. No significant issues arising from our review to report to those charged with governance.</p>

2. Financial Statements - Other risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Valuation of Level 2 Investments</p> <p>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.</p>	Pension Fund	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> 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. review investment manager service auditor report on design effectiveness of internal controls <p>Our review is complete. No significant issues arising other than what we reported on page 10.</p>
<p>Contributions</p> <p>Contributions from employers and employees’ represents a significant percentage of the Fund’s revenue.</p>	Pension Fund	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> 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. agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports. test a sample of contributions to source data to gain assurance over their accuracy and occurrence. 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 <p>Our review is complete. No significant issues arising from our review to report to those charged with governance.</p>

2. Financial Statements - Other risks

Risks identified in our joint Audit Plan	Applicable to	Commentary
<p>Pension Benefits Payable</p> <p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p>	Pension Fund	<p>Procedures forming part of our audit approach included:</p> <ul style="list-style-type: none"> • 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. • 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 <p>Our review is complete. We noted that the system does not prevent self-authorising of manual entries creating risk of segregation of duties. However, the fund processes a small number of manual entries. Such entries are predominantly done by the technical or payroll teams with appropriate segregation of duties.</p> <p>No significant issues arising from our review to report to those charged with governance.</p>

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Surrey County Council	Grant Thornton	<p>Our review of Group account consolidation is complete. Our planned procedures include:</p> <ul style="list-style-type: none"> • Review of consolidated adjustment for CIES, Balance Sheet, MIRS and Cash flow • Review of elimination of inter-company balances on consolidation • Review consistency of data between single entity and audited component audited accounts • Review of adequacy of group disclosure notes. 	<p>HGR Ltd became a subsidiary of Surrey County Council in May 2020. Management updated the Group account consolidation working paper in January 2023 to consolidate HGR trading performance for 2021/22. We reviewed the revised consolidation and agreed them to underlying records.</p> <p>We reviewed the group related disclosures and identified a number of minor disclosures which had not been updated from prior year including the change in HGR group structure. Management agreed and amended the group disclosures. We note management rely on information from the audited subsidiaries to identify the intercompany balances to be eliminated during consolidation process. Recommend the Council carry out reasonableness checks such as comparing receipts and payments to Council subsidiaries to ensure the accuracy of intercompany balances eliminated from the group account consolidation.</p> <p>We also challenged management why HGR 2020/21 accounts had not been consolidated into the prior period accounts. Management’s view was that the transactions for 8 months trading in 2020/21 was not material. We reviewed the audited accounts filed for the 8 month period and we are not minded to challenge management’s assumption in this respect.</p> <p>Additionally, we note that the Group MIRS statement format in the draft accounts was not fully compliant with the Code. Specifically, the Group MIRS statement did not include a line for ‘Adjustments between group accounts and authority accounts’. Management updated the Group and prior year MIRS statements to comply with the Code as recommended. The additional narrative disclosure explaining the prior period MIRS adjustment in our view to the extent practicable meets the requirement of the Code as the closing balances remains unchanged.</p> <p>We also note that the presentation of the Group and prior year Cash Flow Statement in the draft accounts was not consistent with the CIPFA model adopted by the Council. Management updated the Group Cash Flow Statement in line with the Code. The additional narrative disclosure explaining the prior period Cash Flow Statement and Group Cash Flow Statement adjustments in our view to the extent practicable meets the requirement of the Code as the closing cash balances remains unchanged.</p>

2. Financial Statements – Key findings arising from the group audit continued

Component	Component auditor	Findings	Group audit impact
Halsey Garton Property Limited	UHY Hacker Young LLP	<p>The component auditor issued an unqualified opinion on the accounts. A copy of the audited accounts was provided on 4 January 2023. Our review is complete.</p> <p>Our planned procedures included:</p> <ul style="list-style-type: none"> • Review of the audit findings of component auditor • Review of the outcome of risk identified around valuation of investment property assets as at 31 March 2022 including review of relevant aspects of the component auditor and audit documentation • Challenge the component auditor around the valuation assumptions including the material valuation uncertainty disclosures in respect of the investment property assets • Review of responses to our group instructions • Review of component auditor opinion and any limitation of scope or material uncertainty if any. 	Our review is complete. No significant issue arising from our review to report to those charged with governance.
Surrey Choices Limited	UHY Hacker Young LLP	The component auditor issued an unqualified opinion on the accounts. A copy of the audited accounts was provided on 4 January 2023. Analytical review procedures is complete.	Our review is complete. No significant issue arising from our review to report to those charged with governance.
Hendeca Group Limited	UHY Hacker Young LLP	The component auditor issued an unqualified opinion on the accounts. A copy of the audited accounts was provided on 4 January 2023. Analytical review procedures is complete.	Our review is complete. No significant issue arising from our review to report to those charged with governance.
Halsey Garton Residential Limited	UHY Hacker Young LLP	Management informed the audit team of a change in group structure of Halsey Garton Residential Limited (HGR). HGR was originally part of Halsey Garton Property Limited group up until May 2020. It became a subsidiary of Surrey County Council after that date. The component auditor issued an unqualified opinion on the accounts on 27 October 2022. Analytical review procedures is complete.	<p>Our review is complete. Management informed us of a change in group structure of Halsey Garton Residential Limited (HGR) late in the audit. HGR was originally part of Halsey Garton Property Limited group up until May 2020. It became a subsidiary of Surrey County Council after that date. Management updated the draft 2021/22 accounts to consolidate Halsey Garton Residential Ltd.</p> <p>Late notification of the change in group structure contributed to the delays in the conclusion of the group accounts and disclosures.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
<p>Land and Building valuations – £1,329m</p> <p>Surplus Assets £35m</p>	<p>Other land and buildings comprises £343.9m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£963.7m) are not specialised in nature and are required to be valued at existing use value (EUUV) at year end. The Council has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2022, on a five yearly cyclical basis. 35% of total assets were revalued during 2021/22.</p> <p>With regard to assets not formally revalued at the balance sheet date within the rolling programme, the Council has consulted with its valuers and has determined that whilst there have been inflationary pressures in the market that would increase the value of assets valued at DRC, such as schools, these increases would be mitigated by depreciation to the asset over the relevant period. This means that the values are unlikely to be materially different at the balance sheet date.</p> <p>The total year end valuation of land and buildings was £1,329m, a net increase of £22.3m from 2020/21. This net increase arises from the valuation process in combination with additions, enhancements, disposals and completions of buildings during the year.</p>	<p>Our planned procedures included:</p> <ul style="list-style-type: none"> assessed management’s expert, Bruton Knowles LLP, to be competent capable and objective ensured the valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUUV for non-specialised properties agreed the valuation reports provided by management’s expert to the fixed asset register and to the financial statements checked the valuation methodologies applied are consistent with those applied in the prior year reviewed of a sample of valuation calculation sheets made during the year to see if they had been input correctly into the Council’s asset register and financial statements. assessed the value of a sample of assets in relation to market rates for comparable properties. challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding including following up queries from our expert valuer, Gerard Eve with management. <p>Our work is complete. We undertook additional work on DRC assets setting an expectation using industry averages and reached a conclusion that DRC assets were potentially understated by £8.7m. Managements view was that the difference was not material and opted not to amend the value of DRC assets. Refer to page 8 for details.</p>	<p>Grey</p>

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- [Light Purple] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Investment Property Valuation - £131m

The Council changed valuer for the valuation of its investment properties (IP) in 2021/22. IP are held to earn rental income and/or for capital appreciation. IP are measured initially at cost and subsequently at fair value. IP are re-valued annually.

Our planned procedures included:

- Revised ISA540 requirements in guidance note
- Assessment of management's expert CBRE,
- Completeness and accuracy of the underlying information used to determine the estimate e.g. rentals and yields
- Appropriateness of any alternative assumptions
- Impact of any changes to valuation method
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements.

Our work is complete. We identified some presentational issues which management have agreed to amend. Details are set out in Appendix C.

Light purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability – £1,859m

The Council's net pensions liability comprising assets and liabilities relating to the Surrey County Council and the Firefighters' Pension scheme together with unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.

Given the significant value of the net pension fund liabilities, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £311m in the overall net pension fund liability in 2021/22.

- We have assessed the actuaries, Hymans Robertson, to be competent, capable and objective.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7% (2.7%)	2.7% - 2.75%	●
Pension increase rate	3.2% (3.2%)	3.15% – 3.30%	●
Salary growth	4.2% (4.1%)	CPI and CPI + 1.0%	●
Life expectancy – Males currently aged 45 / 65	23.1 / 22.3 yrs (23.1 / 22.1 yrs)	21.4 – 24.3 yrs 20.1 - 22.7 yrs	●
Life expectancy – Females currently aged 45 / 65	26.3 / 24.9 yrs (26.2 / 24.5 yrs)	24.8 -26.7 yrs 22.9 – 24.9 yrs	●

Figures are based on revised IAS19 disclosure (original estimate in brackets)

- Key assumptions above are not significantly different to prior year.
- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2021/22 valuation method and IAS19 assumptions are reasonable.
- We have completed our review of the Firefighters' Pension scheme.

Our audit is complete. In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to your circumstances.

Light purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Eco Park waste PFI – Anaerobic digestion plant (ADP) valuation	<p>The disclosure in the draft accounts was unchanged from prior year where we consider the appropriateness of the on-going treatment and disclosure of Eco Park ADP as assets under constructions which consists of a Anaerobic Digester held at £29m (previously impaired in 2019/20). Management provided us with a copy of a signed declaration from an independent certifier [Wood Environment & Infrastructure Solutions UK Limited] confirming the Anaerobic Digestion Facility has passed the acceptance test on 23 September 2021.</p> <p>Management's view in 2021/22 is it is appropriate for the Council to recognise the asset as AuC as at 31 March 2021 as there is reasonable expectation that there will be future economic benefit from the asset</p>	<ul style="list-style-type: none"> Eco Park ADP was transferred out from AUC into plant and equipment We considered management's appropriateness of the treatment and disclosure of Eco Park ADP We have challenged the Council on classification of Eco Park ADP i.e as vehicle, plant and equipment or as infrastructure assets We also challenged the basis of the useful economic life of 31 years applied. Management ADP useful life was based on a discussion with SITA which dates back to 2012. <p>We recommended to management some disclosure amendments in respect of the treatment of Eco Park ADP.</p> <p>We also recommend the Council get a formal view on the useful economic life of the Anaerobic Digester in 2022/23.</p> <p>Our review is complete. No significant issue arising from our review to report to those charged with governance.</p>	Grey

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £219m	<p>Management's policy states that grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.</p> <p>Material grants received during the year include:</p> <ul style="list-style-type: none"> • COVID-19 Emergency Funding • Social Care Support Grant • Education Funding Agency • Public Health Grant • Dedicated Schools Grant <p>Work performed on grants confirm that the judgements exercised by the Council management in determining whether they are acting as principal or agent is complete.</p>	<p>Our planned procedures included:</p> <ul style="list-style-type: none"> • Reviewed management's judgement of whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all (sections 2.3 and 2.6 of the Code). • Reviewed completeness and accuracy of the underlying information used to determine whether there are conditions outstanding that would determine whether the grant be recognised as a receipt in advance or income • Reviewed impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • Reviewed adequacy of disclosure of management's policy around recognition of grant income in the financial statements. • Identified classification error of £15.5m between General grants and contributions and Central income and expenditure. <p>Our review is complete. Our review identified material classification errors in the accounting treatment of ring-fenced and non ring-fenced grants. Management have made the necessary changes to the CIES and related income notes.</p>	Grey

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £26.3m	<p>The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt – known as its Minimum Revenue Provision (MRP). The Council's approach to the MRP is set out to Members as part of the Budget and Medium-Term Financial Strategy. The basis for the charge is set out in Regulations and statutory guidance.</p> <p>This year the MRP charge was £26.3m, an decrease of £8.5m from 2020/21 (£34.8).</p>	<p>Whilst we are satisfied that the Council has approved its MRP through appropriate governance structures and has sufficient reserves to cover the impact of any changes in approach that may arise out of recent MHCLG consultations, the Council will need to ensure that the MRP continues to be adequate in the context of increased borrowing. Recent events with other councils show that there are significant risks attached to not ensuring that MRP keeps pace with increased borrowing.</p> <p>We have carried out the following work:</p> <ul style="list-style-type: none"> Confirmed that the Council's policy on MRP complies with statutory guidance. Note MRP disclosure error of £5.6m within Note 33 which the Council agreed to amend Gained an understanding of the MRP movement between years. <p>We note in the Capital financing requirement (Note 33), the MRP on lighting, waste and care amounting to £5.6 million was omitted in error.</p> <p>We concluded that the 2021/22 MRP charge is reasonable but advise the Council to monitor this closely due to the recent trajectory of the MRP charge and its relationship to borrowing.</p>	Light purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

<p>Level 3 investments £337.7m (Pensions - draft)</p>	<p>The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2022 at £523m (PY £375m). These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. Valuations are based on forward looking estimates by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of the investment has increased by £63m.</p>	<p>Our planned procedures included:</p> <ul style="list-style-type: none"> assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2021; assessed the consistency of the estimate against peers and industry practice; reviewed the reasonableness of the increase in the estimate; and assessed the adequacy of disclosure of estimate in the financial statements. <p>Our work is complete. Our review identified some classification errors. Details are set out in Appendix C.</p>	<p>Grey</p>
<p>Level 2 investments (Pensions)</p>	<p>The Pension Fund have investments in derivatives, indexed-linked securities, pooled equity and pooled property funds that in total are valued on the net asset statement as at 31 March 2022 at £1,857m (fair value). The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use the valuations provided by investment managers.</p>	<p>Our planned procedures included:</p> <ul style="list-style-type: none"> assessed the appropriateness of the underlying information used to determine the estimate; assessed the consistency of the estimate against peers and industry practice; reviewed the reasonableness of the increase in the estimate; independently assessed the valuation of derivative investments, which are material to the Fund on a gross liability basis. <p>Our work is complete. Our review identified some classification errors. Details are set out in Appendix C.</p>	<p>Grey</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter

Working papers and cleansing of data

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. There were also delays in obtaining Council Tax and NNDR updates to the accounts (which is beyond the control of the finance team), audited reports and supporting working papers from component auditor of Halsey Garton, queries from your valuation and pension fund valuation experts as well as responses to our 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.

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, 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, however, as capacity in the audit team was limited this was not possible. We recommenced the audit in January but had to pause the audit again in April due to other work commitments. We recommenced the audit in July 2023 and completed our audit work in October 2023.

Commentary

Audit team continues to work collaboratively with the finance team in a number of ways including:

- joint weekly updates attended by the Senior Audit Manager
- daily catch up between the Assistant Manager and other members of the audit team and members of the finance and pension fund team
- Providing weekly, written updates on audit progress to members of the finance and pension fund team.

Auditor view and management response

Management response

The Corporate Finance Team continue to work collaboratively with the external audit team to ensure that the outstanding queries are answered to enable Senior Audit Manager sign off and audit completion as soon as possible. The Corporate Finance and Pension teams have committed to running a 'lessons learned' session on completion of the audit to agree improvements to the audit process going forwards from both sides of the relationship. The Council have also committed to run some internal training to ensure that working papers provided are consistently of the required standard.

Pension Fund Management response

Delays have been caused by several concurrent issues including staffing issues in both the pension team and audit team together with slow responses from third parties. Further delays were experienced due to the completion of the Actuarial Valuation – the results of which needed to be reflected in the accounts of both the Council and Pension Fund.

In previous years the Pension Fund financial accounts were produced by a key individual and all audit queries were directed to and dealt with by this individual. 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. However, this restructure did lead to some changes to key personnel and a resulting loss of corporate memory, which coincided with the audit fieldwork, contributing to audit delays.

With progress on the audit impacted, the audit team withdrew completely during October and November 2022. On recommencing engagement, which did not happen until 9 December, the team members were changed – requiring handover and learning on their part.

The audit queries log produced in the earlier part of the fieldwork was not reintroduced in this second phase – causing some issues in identifying the comprehensive set of outstanding items – this remains an issue as at 13 January.

Particular issues were experienced in the second phase of the audit.

No Auditors were available during the Christmas break. The second Audit team handover was not efficient and as such re-raised several queries already completed in September by the first Audit team. There was no escalation or communication of further evidence still required on previously 'completed' queries until 19 December.

2. Financial Statements - matters discussed with management

Significant matter

Pension Fund Level 3 investments

These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. Part of our audit procedures included a review of the year end audited accounts as at year end for a sample of fund 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.

Additionally, for one property unit trust with a value of £18.5m, audited accounts are not produced for an in-house pooled pension investment fund. We carried out additional procedures including agreeing to valuation statement at year end. The valuation was not materially different as at year end.

Commentary

We challenged management on how they have assured themselves that the valuation of these investments were not materially mis-stated.

Management placed reliance on the checks undertaken by their custodian. However the custodian confirmed at a joint meeting with management that their contract of agreement does not include a review of individual fund audited statements or auditor reports.

We carried out additional procedures on these 12 investments to 30 September 2022 and found the valuation between 31 March and 30 September were not materially different.

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 also set out steps to be taken to provide assurance that the Funds are not materially mis-stated.

Auditor view and management response

Management response

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.

Pension Fund Current assets 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.

We challenged management on the validity of these old CAY debtors to assess if these were still valid debtors.

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. Similarly, investigate and clear all old CAY overpayments.

Management response

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.

2. Financial Statements - matters discussed with management

Significant matter

Commentary

Auditor view and management response

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.

We consider the contract notes entered into each year as the primary evidences. We carried out alternative procedures to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures are reasonable. We recommend management routinely request copies of contract notes for derivatives as part of the evidence obtained from their Fund managers annually.

Management response

We will follow up on the recommendation to obtain contract notes for derivative positions at the period end.

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.

We carried out alternative procedures to assure ourselves that pensioners and deferred pensioners numbers were not materially mis-stated.

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

We have instigated the running of specific quarterly membership reports for consistent presentation of member numbers.

Disposal Note 13

During the year and identified from our sample of two disposals with a combined net book value of £580k as part of Schedule 1 (Phase 1) transferred by SCC to Hasley Garton Residential Ltd, a subsidiary company of SCC. The disposal took place in 2020/21 and should have been written out of the balance sheet in prior year but had only been written out this year

We undertook additional procedures to gain assurance that the year end value for PPE disposals is not materially misstated. Our work on this area is complete and did not identify and further issues.

Recommend management carry out regular existence to review of assets held on the balance sheet to gain assurance that those assets are owned by the Council/Group and still in use.

Management response

The disposal was omitted from the 2020/21 accounts in error, as the transfer of assets between organisations within the group was not identified. Processes have been amended to ensure regular review of assets held by the subsidiaries, including a full reconciliation of all disposals, purchases and transfer of assets. In addition, as part of the closedown timetable, draft accounts for the subsidiaries will be received earlier, to enable further reviews to be carried out before group consolidation.

Group consolidation

HGR Ltd became a subsidiary of Surrey County Council in May 2020. Management updated the Group account consolidation working paper in January 2023 to consolidate HGR trading performance for 2021/22. We reviewed the revised consolidation and agreed them to underlying records.

We challenged management why HGR 2020/21 accounts had not been consolidated into the prior period accounts. Management's view was that the transactions for 8 months trading in 2020/21 was not material. We reviewed the audited accounts filed for the 8 month period and we are not minded to challenge management's assumption in this respect.

Further details are set out on pages 15 and 16 of this report. Late notification of the change in group structure resulted in re-audit of the group accounts and disclosures.

2. Financial Statements - matters discussed with management

Significant matter

Commentary

Auditor view and management response

Review of draft accounts

As part of our review of the accounts, we considered how the draft accounts complies with the CIPFA Code of Practice.

We summarise the key amendments arising from our review in the adjacent column.

Surrey County Council

- Prior year Comprehensive Income and Expenditure Statement (CIES) was restated due to restructure in 2021/22 of Transformation, Partnership and Prosperity was split into Public Service Reform and Public Health, Resources and Prosperity, Partnerships and Growth. Group CIES was also restated.
- Note 4 'Critical judgements in applying accounting policies' was updated to exclude judgements that had no material effect
- The purpose and disclosure of estimation uncertainty (Note 5) was updated to comply with requirements of IAS1
- Note 8 'Adjustments between accounting basis and funding basis under regulations': Collection fund adjustment account was amended to be consistent with Note 23 Unusable reserves: Collection Fund Adjustment Account due to late returns from some districts and boroughs.
- Note 13 disclosures including additions, assets under construction, assets not revalued, surplus assets, infrastructure assets, capital contracts were revised and updated
- The purpose for holding Investment properties (Note 14) was updated to be compliant with the Code. The amendment was also applicable to Group disclosure
- Note 16 Financial Instruments (FI) was amended excluding items that do not meet FI definition per the Code. Additionally, the fair value of long term loans to the subsidiary was calculated and was updated in the FI disclosure
- Note 20 Collection fund creditors was updated to be consistent with supporting evidence
- Inconsistencies between revaluation reserves (Note 23), accumulated gains and losses on assets sold or scrapped (Note 13), capital adjustment account were update to be consistent with the Code
- Inconsistencies between Capital Adjustment Account (Note 33) was updated of the Minimum Revenue Provision (MRP) and value reflected in Note 8 'Adjustments between accounting basis and funding basis under regulations'
- Note 30 Dedicated Schools Grant (DSG) disclosures including prior year were updated to be Code compliant. The adjustments impacted on the movement on the reserves statement (MIRS) and Note 8: Adjustments between accounting basis and funding basis under regulations
- Note 33 Capital expenditure and capital financing was updated particularly in arriving at the Capital Financial Requirement
- Note 38 Defined Benefit Pension inconsistencies with current and prior year MIRS, LGPS contributions and pension fund entries in the Cash Flow Statements were all updated. Additionally, a number of the disclosures were updated to be consistent with the updated Pension Fund IAS19 report\
- Note 40 Cash Flow Statement entries were inconsistent with capital entries in Note 12 Council tax and general grants & contributions were updated
- The 'narrative report' to the Firefighters Pension Fund (FFPF) statements has been amended and correctly disclosed as notes to FFPF per the Code.

The volume of queries and challenges that arose from the quality review resulted in several amendments and disclosure updates to both the single entity and group accounts. Additionally, some of the changes identified were material changes to prior year primary statements and disclosures resulting in prior period adjustments (PPA).

The review process required numerous discussions with management to agree the correct accounting presentation that complied with CIPFA Code. This resulted in the audit team checking more than 20 versions of the Statement of Accounts which has contributed to the length and cost of the audit.

We recommend the Council further strengthen its quality review arrangements.

Management response

Quality review arrangements were looked at as part of the 2022/23 closedown process and strengthened in line with audit recommendations. Following the conclusion of the 21/22 and 22/23 audits closedown all processes and quality review arrangements will be thoroughly evaluated to ensure improvements are made.

2. Financial Statements - matters discussed with management

Significant matter	Commentary	Auditor view and management response
<p>Review of draft accounts ...continued from over page</p>	<p>Surrey County Council - Group</p> <ul style="list-style-type: none"> • Movement in the Group net assets did not agree to Group CIES resulting in Group Account imbalance. Group account was amended so Movement in the Group net assets agrees to Group CIES • Group MIRS was not prepared in accordance with the Code as set out in the CIPFA guidance. Group MIRS was updated, and prior year comparison was restated • Group Cash Flow Statement (CFS) opening balance was inconsistent with Group CIES for current and prior year, this was amended • The format of Group Cash Flow Statement was not consistent with single entity Cash Flow Statement. The Group CFS was restated for comparative purposes as the Council has used the CIPFA Cash Flow model for the first time in 2021/22 which has increased the cash flow disclosure notes • Material non-cash movements within the Group CFS had not been analysed per Code requirements. The analysis has been included as Note 8 to the Group accounts 	Refer to previous page.
<p>Capital Receipts Reserve Note 8 We note capital receipts of £1,681k received in the year was transferred direct to the service to fund revenue expenditure.</p>	The impact is not material. However Note 22 Usable Capital Receipts and Note 23 Capital Adjustment Accounts have been understated by £1.6m	The disclosure omission has no bottom-line impact
<p>Dedicated Schools Grant (DSG) We note the DSG was not presented in accordance with the standardise note set out in the Code guidance, and there were differences between the reported deficit and the DSG adjustment account in Note 23</p>	The DSG (Note 30) and supporting working papers were re-worked in compliance with the Code. Additionally, an in-year deficit adjustment was made to the DSG Adjustment Account (Note 23) of £20.5m to ensure the 31 March 2022 balance as reported in the DSG Note 30 agrees with Note 23 DSG adjustment account.	DSG note is properly presented in accordance with the Code guidance
<p>Accumulated Absences Account Note 23 We note annual leave accrual had decreased by c69% when compared with prior year accrual.</p>	We challenged management to gain and understanding for the significant reduction in annual leave accrual. We reviewed managements annual leave accrual calculation and compared this with prior year calculations. We noted an error in the calculation where Teacher's salary accrual for this year was omitted in error. We estimated the omission was in the order of £8.5m. Management revisited the annual leave accrual calculation and confirmed an error in the working paper and updated the working paper and relevant entries in the Statement of Accounts (SoA).	The error and related amendments resulted in multiple adjustments to the SoA including both single entity and Group CIES, MIRS, Balance Sheet, Cash Flow, and a number notes to the accounts.

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee as part of our planning inquiries. 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council and Pension Fund at the conclusion of the audit.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent and received.
Accounting practices	We have evaluated the appropriateness of the Council, Group and Pension fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council and Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Council and the environment in which it operates• the Council's financial reporting framework• the Council's system of internal control for identifying events or conditions relevant to going concern• management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our review is complete. We identified minor amendments which we discussed and agreed with management. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties, • where we are not satisfied in respect of arrangements to secure value for money and/or have reported significant weaknesses. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £2 billion, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. These procedures will be completed after the conclusion of our auditor's report.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Surrey County Council in the audit report, as detailed in Appendix E, until after the conclusion of the following reviews:</p> <ul style="list-style-type: none">• the work necessary to issue of an auditor's report on the pension fund annual report, and• Whole of Government Accounts.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the January 2023 Audit and Governance Committee meeting.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusion on your VFM arrangement remain unchanged.

4. 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified and no threats to our independence was been identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500 (planned)	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £214,948 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
IAS 19 Assurance letters for admitted/scheduled bodies	14,500 (planned)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,500 in comparison to the total fee for the audit of £214,948 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

Appendices

A. Action plan – Audit of Financial Statements

We have identified recommendations for the group and pension fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. 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.

Assessment	Issue and risk	Recommendations
High	<p>Pension Fund Journal processing</p> <p>During the year, there was no journal control over separation of duties Pension Fund between journal input, processing or authorisation.</p> <p>Risk of override of control over journals, management estimates and transactions outside the course of business</p>	<p>Establish separation of duties over pension fund journal controls between journal input, processing or authorisation</p> <p>Management response</p> <p>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.</p>
High	<p>Pension Fund Level 3 investments</p> <p>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.</p> <p>Risk of Fund investment valuations may be materially overstated</p>	<p>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.</p> <p>Management response</p> <p>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.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	<p>Pension Fund Current assets: Sundry debtors Note 11</p> <p>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.</p> <p>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.</p> <p>Risk that sundry debtors may be misstated.</p>	<p>Management is undertaking an exercise to clear the backlog which we collaborated to recent invoices raised in FY 22/23.</p> <p>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.</p> <p>Management response</p> <p>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.</p>
Medium	<p>Pension Fund Level 2 investments - derivatives</p> <p>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.</p>	<p>We recommend management routinely include copies of contract notes for derivatives as part of the evidence obtained from their Fund managers annually</p> <p>Management response</p> <p>We will follow up on the recommendation to obtain contract notes for derivative positions at the period end.</p>
Medium	<p>Useful Economic Life – Eco Park</p> <p>The Council has estimated the useful economic life Anaerobic Digester of 31 years (classified as Vehicle, Plant and Equipment) was based on a discussion with SITA which dates back to 2012.</p> <p>Risk that the useful economic life and depreciation may be inaccurate.</p>	<p>We recommend the Council get a formal view on the useful economic life Anaerobic Digester in 2022/23.</p> <p>Management response</p> <p>We agree to endeavour to find a third party opinion on the value and remaining useful life of the anaerobic digester, recognising that it is not a traditional asset and formal valuations of such plant/machinery are not common.</p>
Medium	<p>Quality reviews and checks</p> <p>The volume of queries that arose from the quality review resulted in several amendments and disclosure updates to both the single entity and group accounts. Additionally, some of the changes identified related to prior year disclosures were material resulting in prior period adjustments</p> <p>Risk of material error in the accounts and disclosure notes</p>	<p>We recommend the Council further strengthen its quality review arrangements.</p> <p>Management response</p> <p>Quality review arrangements were looked at as part of the 2022/23 closedown process and strengthened in line with audit recommendations. Following the conclusion of the 21/22 and 22/23 audits closedown all processes and quality review arrangements will be thoroughly evaluated to ensure improvements are made. We will follow up the recommendations. Closedown processes will be thoroughly reviewed and plans will be put in place to ensure time and resources are available to provide quality review of the statements and disclosure notes prior to publication.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	<p>PPE valuation Note 13</p> <p>The value of assets not revalued within 5 years should be amended from £109m to £9m. Assets not revalued within 5 years is not consistent with the Council policy and CIPFA Code.</p> <p>Risk that PPE assets may be materially mis-stated.</p>	<p>Ensure all PPE assets are revalued at least once within a 5 year period inline with Council policy and CIPFA Code</p> <p>Management response</p> <p>Whilst the value of PPE assets not revalued within the 5 year period is not material we will continue to work with our valuers and build space in the closedown timetable to ensure that all required assets are revalued in line with Council Policy and CIPFA code of practice.</p>
Low	<p>PPE Disposals Note 13</p> <p>During the year and identified from our sample of two disposals with a combined net book value of £580k as part of Schedule 1 (Phase 1) transferred by SCC to Hasley Garton Residential Ltd, a subsidiary company of SCC. The disposal took place in 2020/21 and should have been written out of the balance sheet in prior year but had only been written out this year.</p>	<p>Recommend management carry out regular existence to review of assets held on the balance sheet to gain assurance that those assets are owned by the Council/Group and still in use.</p> <p>Management response</p> <p>The disposal was omitted from the 2020/21 accounts in error, as the transfer of assets between organisations within the group was not identified. Processes have been amended to ensure regular review of assets held by the subsidiaries, including a full reconciliation of all disposals, purchases and transfer of assets. In addition, as part of the closedown timetable, draft accounts for the subsidiaries will be received earlier, to enable further reviews to be carried out before group consolidation.</p>
Low	<p>Pension Fund Membership Note 1</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>We have instigated the running of specific quarterly membership reports for consistent presentation of member numbers.</p>
Low	<p>Group account consolidation</p> <p>We note management rely on information from the audited subsidiaries to identify the intercompany balances to be eliminated during group consolidation process.</p>	<p>Recommend the Council carry out reasonableness checks such as comparing receipts and payments to Council subsidiaries to ensure the accuracy of intercompany balances eliminated from the group account consolidation.</p> <p>Management response</p> <p>Corporate Finance and the commercial team will strengthen checks prior to completion to ensure reasonableness checks are carried out on intercompany balances before they are included in the group account consolidation.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Surrey County Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report.

We have followed up on the implementation of our recommendations and note the following.

Assessment

- ✓ Action completed
- X Not yet addressed

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
✓	<p>Investment Property valuations</p> <p>We note that 3 Investment Properties with a combined value of £1m were not revalued at year end in line with the Code. Two out of the three Investment Properties were subsequently revalued in quarter 1 of 2021/22. and the third was not revalued.</p> <p>Risk that all Investment Properties are not revalued annually in accordance with the Code and the year end valuation could be misstated.</p>	<p>Recommend that a check is done each year to ensure all Investment Properties are revalued annually in line with the Code</p> <p>Management response</p> <p>We will work with our Valuers and build checks into the closedown timetable to ensure that all Investment Properties are revalued annually and are all disclosed within the correct Investment levels.</p> <p>Management update on actions</p> <p>The property omitted for the 2021/22 statements will be included in the full list provided to valuers for the valuation as at 31 March 2023.</p>
✓	<p>Group accounts consolidations</p> <p>We noted a number of errors in the group consolidation and supporting working papers</p> <p>Risk that the consolidated group accounts are materially misstated and misleading to the reader of the accounts</p>	<p>We recommend you continue to strengthen the quality review arrangements of the consolidated accounts and supporting working papers.</p> <p>Management response</p> <p>We will build additional time into the closedown timetable to enable the component accounts and the subsequent consolidation to be reviewed prior to publication. The consolidation working papers will be completely reviewed. We will work with the component auditors to ensure that the final accounts are received in a format compatible with consolidation. It is anticipated that group consolidation will improve substantially once Unit4 is implemented for the 2022/23 accounts.</p> <p>Management update on actions</p> <p>Additional resources and improvements were made on the group account consolidation for the 2021/22 statements. All working papers were updated in conjunction with the audit team.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
✓	<p>SCC subsidiaries audit arrangements</p> <p>We experienced delays in receiving the subsidiaries audited accounts, supporting working papers and timely responses to auditor queries.</p> <p>Delays in receipt of subsidiaries audited accounts risks achieving the statutory deadlines for accounts preparation and audit of the accounts and adding further costs to the audit.</p>	<p>The Council should work with it's appointed component auditor of the subsidiaries in ensuring the audited accounts and supporting working papers are completed in line with the agreed annual closedown timetable.</p> <p>The arrangements should also standardise the turnaround time for audit queries of no more than 72 hours similar to that adopted by the finance team.</p> <p>Management response</p> <p>We will work with the component auditors and review working paper processes and production to improve the quality of the working papers and the response time to auditor queries.</p> <p>Management update on actions</p> <p>The Commercial Finance Team continue to work closely with the component auditors and continue to improve working papers.</p>
✓	<p>Creditors completeness</p> <p>We noted a number of errors in the cut off testing of completeness in income and expenditure {unrecorded liabilities / income}.</p> <p>Risk of income and expenditure being materially misstated</p>	<p>Ensure year end accruals are accurately classified into the appropriate financial years in line with your closedown arrangement.</p> <p>Management response</p> <p>We have already started working on the timetable, files and processes for the 2021/22 closure of accounts. As part of this process we will be updating the closing guidelines to reemphasise the issues raised. The guidelines will be sent out to all directorates and will be agreed prior to publication. I will be arranging closedown meetings once the 2020/21 accounts are finalised and part of these meetings will include a debrief on lessons learned during the 2020/21 closure of accounts as well as talking through what needs to be improved upon for the 2021/22 closedown. All directorates will be included in these meetings</p> <p>Management update on actions</p> <p>The updated closing guidelines for the 2021/22 statements provided clarity on the classifications required and improved the processes, reducing some of the creditor issues experienced in previous years. Further improvements are planned from 2022/23 onwards.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Council - SCC	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Adjustments of Council tax and NNDR returns due to late return from a district councils	Local Taxation (38,090)	Debtors 19,675 Creditors 19,182 Dr Provisions 4,157 Expected credit loss (4,924)	(38,090)
Short term borrowing	Nil	(9,564)	nil
Long term borrowing incorrect classification		9,564	
Provisions Note 21 – unwinding of provisions	Nil	11,581	nil
Earmarked reserves		(7,186)	
Debtors		(4,395)	
Correction of error in the calculation of annual leave accrual.	8,486	(8,486)	8,486
Grant and contributions (Note 31)	11,889	(11,889)	11,889
Grant received in advance incorrect classification			
Overall impact	(17,715)	17,715	(17,715)

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of unadjustments identified during the year audit not made within the final set of 2021/22 financial statements, and details of how they impacted upon the 2021/22 financial statements.

Unadjusted misstatements on Surrey Accounts	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
PPE valuation – difference between expected and management’s expert’s valuation of Depreciated Replacement Cost assets	Nil	(8,659) 8,659	Nil	Cumulative impact is not material.
Grant income (error in amount £1.9m and extrapolated error £368k)	2,256	(2,256)	2,256	Cumulative impact is not material.
Triennial 2022 valuation: 0.1% change in the Salary Increase Rate will result in a movement of £5,762k	5,762	(5,762)	5,762	Cumulative impact is not material
Note 22 Usable Capital Receipts and Note 23 Capital Adjustment Accounts have been understated by £1.6m	Nil	1,681 (1,681)	Nil	Cumulative impact is not material
Overall impact	8,018	(8,018)	8,018	Cumulative impact is not material

Unadjusted misstatements on Pension Fund	Fund Account £'000	Net Assets Statement £' 000	Impact on Closing Net assets £'000	Reason for not adjusting
PF Investment Investments assets: Private Equity year end value increase in value of investments as at 31 March 2022	28,200	28,200	28,200	Cumulative impact is not material.
Overall impact	28,200	28,200	28,200	

C. Audit Adjustments

Misclassification and 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.

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Comprehensive Income and Expenditure Statement	Council	Prior year Comprehensive Income and Expenditure Statement (CIES) was restated due to restructure in 2021/22 of Transformation, Partnership and Prosperity was split into Public Service Reform and Public Health, Resources and Prosperity, Partnerships and Growth. Group CIES was also restated.	✓
Note 2: Expenditure Analysis by Nature	Council	The line for gain in fair value of investment properties (£5,501k) was inconsistent with supporting working papers (£8,380k). Error is disclosure only.	✓
Note 4: Critical judgements	Council	Judgements updated to exclude items that do not meet IAS 1.	✓
Note 5: Estimation uncertainty	Council	The purpose and disclosure of estimation uncertainty was updated to comply with requirements of IAS1	✓
Note 8: Adjustment between accounting basis & funding basis	Council	Entry for Collection fund adjustment account was amended to be consistent with Note 23 Unusable reserves: Collection Fund Adjustment Account	✓
Note 11: Interest and investment income	Council	Income disclosed was inconsistent with supporting working papers. Income disclosed should be amended to £15,794k	✓
Note 12: Council tax and general grants & contributions	Council	Based on the updated grant income in Note 31 (see below), the grants and contributions disclosure was updated as follows: <ul style="list-style-type: none"> • Non-ringfenced government grants: £74,562k • Capital Grants and Contributions: £154,692k 	✓
Note 13: Property, Plant and Equipment - Additions	Council	Additions disclosure was incorrectly disclosed net with a negative balance of £17,773k. Analysis should be disclosed gross: <ul style="list-style-type: none"> • Transfers between asset classes, • Additions, and • Derecognition & disposal. 	✓
Note 13: Property, Plant and Equipment - Revaluations	Council	Error in disclosure of the value which refers to “small proportion of the portfolio” as not being revalued every five years. The value of assets not revalued within 5 years should be amended from £109m to £9m. Assets not revalued within 5 years is not consistent with the Council policy and CIPFA Code.	✓

C. Audit Adjustments

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Note 13: Property, Plant and Equipment – Infrastructure assets	Council	Disclosure on infrastructure assets updated and enhanced in line with statutory override issued in December 2021.	✓
Note 14: Investment Property	Council	Error identified in the disclosure classification. Disposal of £247k was incorrectly disclosed as reclassification	✓
Note 14: Investment Property	Council	Disclosure in prior year analysis on Net gain/loss from fair value and Balance at end of the year. Error is disclosure only. Additionally, the purpose for holding Investment Properties was updated in the single entity and Group notes to the accounts to be compliant with the Code	✓
Note 16: Financial Instruments	Council	Change in credit loss was inconsistent with supporting records – understated by £1m. FI was amended excluding items such as HMRC, Collection fund, Receipts in Advance and annual leave accrual creditors that do not meet FI definition per the Code. Fair value of long-term loans to the subsidiary was calculated and was updated in the FI disclosure	✓
Note 17: Short term debtors	Council	Classification errors between types of debtors. No impact on total value of ST debtors, disclosure amended	✓
Note 23: Unusable reserves	Council	Inconsistencies between revaluation reserves, accumulated gains and losses on assets sold or scrapped (Note 13), capital adjustment account were update to be consistent with the Code	✓
Note 23: Unusable reserves DSG Adjustment account	Council	The DSG (Note 30) and supporting working papers were re-worked in compliance with the Code. Additionally, an in-year deficit adjustment was made to the DSG Adjustment Account (Note 23) of £20.5m to ensure the 31 March 2022 balance as reported in the DSG Note 30 agrees with Note 23 DSG adjustment account.	✓
Note 26: Officer remuneration – senior officers	Council	Error in the disclosure of Interim Director of Strategic Commissioning total remunerations reported as £158,110 rather £157,605. Amend	✓
Note 27: Officers' remuneration	Council	Errors identified in bandings salaries up to £230k. Employee numbers changed to take into account accurate bandings and exclude Members from the data. Narrative to be amended to reflect staff numbers data supporting report.	✓
Note 29: External audit costs Note 7: External audit costs	Council Group	Errors identified in grant fees, fees payable to UHY Hacker Young LLP and CFO Insights. Amend	✓
Note 30: Dedicated Schools Grant (DSG)	Council	DSG disclosure including prior were updated to be Code compliant. This included disclosing a reconciliation of the opening and closing DSG unusual reserves and the Dedicated Schools Grant Adjustment Account in Note 23	✓

C. Audit Adjustments

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Note 31: Grant and contributions	Council	Analysis of General grants & contributions and Grants credited to services were inconsistent with the trial balance. Disclosure amended.	✓
Note 33: Capital expenditure and capital financing-	Council	Capital Commitment cost of £62.6m (in the narrative disclosure) is inconsistent with the actual amount is £67.97. The narrative will be updated. MRP on lighting, waste and care amounting to £5.6 million was omitted in error	✓
Note 36: Private finance initiatives	Council	Disclosure error in the Payments Analysis and dates have not been updated. Additionally, the figure of £2,912k in the payment for street lighting is inconsistent with supporting records. The figures for the payable for 2021/22 disclosed in 2020/21 were all incorrect (they have been taken from last year's entire closing liability). Amend.	✓
Note 38: Defined benefit pension schemes	Council	Inconsistency between draft statement and actuary report in respect of (gain)/loss on settlements and '- employers' contributions to the scheme/ retirement benefits paid direct to pensioners; £3,024k in past service cost and £5,609k in employers contribution to the scheme from the actuary report noted in addition to 300k difference in Present value of the defined benefit obligation for fire fighters pension scheme. Disclosure was updated in line with your experts actuary report. Additionally, inconsistencies with current and prior year MIRS, LGPS contributions and pension fund entries in the Cash Flow Statements were also updated	✓
Note 39: Contingent assets and liabilities	Council	The contingent asset disclosure likelihood is remote (no change in last 4 years). Management has deleted the contingent asset disclosure.	✓
Note 40, 41 & 42: CFS Notes	Council	CFS disclosure note entries were inconsistent with capital entries in Note 12 Council tax and general grants & contributions were updated (Note 40) Additionally, current and prior year balances were updated to be consistent with cash movements in the year and prior year audited accounts respectively	✓
Firefighters pension fund Financial statements	Council	The firefighters pension fund Financial statements to be made part of core accounts rather than narrative report. Additional narrative to be disclosed 'Firefighters' Pension Fund is administered by Surrey County Council; it falls within the jurisdiction of the Council's chief finance officer for certification prior to being submitted for approval to the Audit and Governance Committee. It is also subject to the council's statutory audit report which is issued after approval from the Audit and Governance Committee has been given.'	✓

C. Audit Adjustments

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Group accounts	Group	The draft group accounts do not balance. The movement in net assets on the balance sheet is £-611.243m compared to group CIES reports £-612.361m. Accounts updated and balances	✓
Group MIRS	Group	Group MIRS was not prepared in accordance with the Code as set out in the CIPFA guidance. Group MIRS was updated, and prior year comparison was restated	✓
Group Cash Flow Statement (CFS)	Group	Group CFS opening balance was inconsistent with Group CIES for current and prior year, this was amended	✓
Group Cash Flow Statement (CFS)	Group	The format of Group Cash Flow Statement was not consistent with single entity Cash Flow Statement. The Group CFS was restated for comparative purposes as the Council has used the CIPFA Cash Flow model for the first time in 2021/22 which has increased the cash flow disclosure notes	✓
Group Cash Flow Statement Note 8	Group	Material non-cash movements within the Group CFS had not been analysed per Code requirements. The analysis has been included as Note 8 to the Group accounts	✓
Note 1: Description of the fund	Pension	Incorrect banding for the employee contributions has been used. Banding should start with 'Up to 14,600'	✓
Note 2: Basis of Preparation	Pension	The first sentence should be, "The Statement of Accounts summarises the fund's transactions for the 2021/22 financial year and its position at the year end at 31 March 2022." instead of "... 31 March 2021."	✓
Note 7: Contributions receivable	Pension	Numerical inconsistencies between supporting records and draft accounts identified. Analysis by Employer: <ul style="list-style-type: none"> Administering authority amount to update from 87,053k to 87,048k Scheduled Bodies amount to update from 97,293k to 102,187k Admitted bodies amount to update from 9,294k to 4,405k 	✓
Note 9: Benefits Payable	Pension	Numerical inconsistencies between supporting records and draft accounts identified. Analysis by Employer: <ul style="list-style-type: none"> Scheduled Bodies amount to update from 78,307k to 82,514k Admitted bodies amount to update from 13,578k to 9,371k 	✓

C. Audit Adjustments

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Note 15 : External Audit Costs	Pension	External audit fees for both prior year and current year should be amount payable to the auditor exclusive of vat.	✓
Note 17a: Reconciliation of movements in investments and derivatives 2021/22	Pension	<p>Errors identified in classification of investments arising between supporting records and draft pension fund accounts.</p> <p>Equities:</p> <ul style="list-style-type: none"> • Purchases during the year and derivative payments to update from 2,817,040 to 2,792,039 • Market Movements to update from 208,057 to 207,233 • Market Value as at 31 March 2022 to update from 3,595,579 to 3,569,755 <p>Private Equity:</p> <ul style="list-style-type: none"> • Purchases during the year and derivative payments to update from 190,962k to 215,962k • Market Movements to update from 63,562k to 26,174k • Market Value as at 31 March 2022 to update from 523,032k to 548,856k <p>Bonds</p> <ul style="list-style-type: none"> • Market Movements to update from (17,319k) to (34,106k) <p>Diversified Growth</p> <ul style="list-style-type: none"> • Market Movements to update from 13,250k to 13,520k 	✓
Notes 18a – 18e Note 20	Pension	<p>Errors identified in Note 17a about has corresponding amendments to notes 18a – 18e and 20.</p> <p>Additionally, Note 18e: Fair Value Hierarchy was updated to include Internally managed cash as Level 1 in Fair Value Hierarchy: Level 1 figure to update from 2,750,215 to 2,765,357.</p> <p>Disclosure omission of Level 3 figures for opening balance was understated by £38.2m. The Net Asset Statement was updated in prior year but not the related note.</p>	✓
Note 19: Outstanding commitments	Pension	Inconsistency identified between your accounting records and draft statements for outstanding commitments. Disclosure to be updated from £571 million to £553 million	✓
Note 25: IAS 26	Pension	Disclosure inconsistency identified between your IAS26 report and draft statements for ‘impact of the change in demographic and longevity assumptions’.	✓

D. Fees

We confirm below our final fees charged for the audit, audit related and provision of non-audit services.

Audit fees	Proposed fee £	Final fee £ (estimate)
Council Group Audit	214,948	300,729*
SCC Pension Fund Audit	40,571	75,571
Total audit fees (excluding VAT)	255,519	376,300

Refer to pages 24 – 28 of this report which sets out key issues discussed with management.

* Fees subject to PSAA agreement

Audit related and Non-audit fees for other services	Proposed fee £	Final fee £ (estimate)
Audit Related Services		
• Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	7,500	7,500
• IAS 19 Assurance letters to Surrey districts	14,500	16,500
Non-Audit service	Nil	Nil
Total audit related and non-audit fees (excluding VAT)	22,000	24,500

Reconciliation of audit fees	Council (Note 29) £000	Grant fee (Note 29) £000	Group audit fees (Note 7) £000	Pension fund (Note 15) £000
Fees per draft accounts	215	8	300	61
Reconciling items:				
• Subsidiaries auditor fees UYH HY	-	-	(77)	-
• Grant audit fee	-	-	(8)	-
• IAS 19 letters fees (estimate)	-	-	-	(17)
• IAS 19 letters fees (accrual)				(3)
Audit Findings Report	215	8	215	41

D. Fees

Fee analysis Council

Scale fee published by PSAA	£115,415
Raising the bar/regulatory factors	£8,125
Enhanced audit procedures for Property, Plant and Equipment plus additional work at accounts including Eco Park	£16,948
Enhanced audit procedures for Pensions	£4,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs, reduced materiality	£6,000
Quality or preparation issues	£25,990
Additional testing including checking errors council tax, business rates and related unusable reserves	£15,785
Infrastructure	£6,000
Pension liability IAS19 revision	£6,500
Review of multiple sets of accounts for audit amendments and disclosures – additional testing and review	£21,500
Group including additional testing	£23,691
Additional work prior period on Group MIRS, Cash Flow and Group Cash Flow, leave accrual, WGA	£18,500
Reduced materiality	£5,260
PPE valuation recharge of auditor expert fees	£7,015
Total audit fees (excluding VAT)	£300,729

D. Fees

Fee analysis Pension Fund

Scale fee published by PSAA	£20,871
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures	£7,500
Increased audit requirements of revised ISAs	£2,100
Derivatives	£3,150
Additional PF Investments and debtors testing	£12,450
Preparation, quality and audit delays	£11,400
Additional testing – journals	8,000
Member data testing	£4,000
Additional testing on pension fund annual report	£3,100
Total audit fees (excluding VAT)	£75,571

E. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Surrey County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Surrey County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and including the Firefighters' Pension Fund Financial Statements comprising the Firefighters' Pension Fund Account and Net Assets Statements, and related notes. 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Deputy Chief Executive and Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

E. Audit opinion

In our evaluation of the Deputy Chief Executive and Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Deputy Chief Executive and Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Deputy Chief Executive and Executive Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Deputy Chief Executive and Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Deputy Chief Executive and Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements, the Firefighters' pension fund and, our auditor's report thereon and our auditor's report on the Surrey Pension Fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

E. Audit opinion

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Deputy Chief Executive and Executive Director of Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Chief Executive and Executive Director of Resources. The Deputy Chief Executive and Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Deputy Chief Executive and Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Deputy Chief Executive and Executive Director of Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003. We also identified the following additional regulatory frameworks in respect of the firefighters. The Public Service Pensions Act 2013, the Firefighters' Pension Scheme (England) Regulations 2014 and the Firefighters' Pension Scheme (England) Order 2006.

E. Audit opinion

- We enquired of senior officers and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:
 - unusual journal entries made during the year and accounts production stage
 - the appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant and equipment and the completeness and accuracy of provisions and accruals.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Deputy Chief Executive and Executive Director of Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus with a focus on testing unusual journal entries made during the year and accounts production stage for appropriateness and corroboration;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of property plant and equipment land and buildings, investment property and defined benefit pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to property, plant and equipment valuations and completeness and accuracy of accruals and payables.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

E. Audit opinion

- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter..

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Surrey County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

E. Audit opinion

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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.

Ciaran McLaughlin, Key Audit Partner

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

London

XX October 2023

F. Audit letter in respect of delayed VFM work

Chairman of Audit and Governance Committee
Surrey County Council
Woodhatch Place,
11 Cockshot Hill,
Woodhatch,
Reigate,
RH2 8EF
March 2023

Dear David Lewis, Chairman of Audit Committee as TCWG

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we 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.

We issued a draft report to management for comments in December 2022 and an interim report to the Audit and Governance Committee in January 2023. The report will be finalised at the conclusion of the financial statements audit.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Ciaran McLaughlin
Engagement Lead
Director



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