



The Audit Findings for Surrey County Council

Year ended 31 March 2023

January 2024

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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 presented to the Audit and Governance Committee.

Name: Paul Dossett
For Grant Thornton UK LLP
Date: January 2024

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 2023 for the attention of 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;
- 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-December 2023. Our findings are summarised on pages 6 to 25. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is largely complete except for the procedures on valuation and pension liabilities. There are no matters of which we are aware that would require modification of our audit opinion [Appendix H] or material changes to the financial statements, subject to the following outstanding matters;

- Valuation of investment properties and other land and building (OLB) and procedures on pension liabilities (GT to process responses to queries received from the actuary).
- Remaining procedures on group accounts (received 3rd Jan), assets under construction (received 4th Jan), capital disclosures (1 sample outstanding), operating expenses (3 samples outstanding), fees and charges income (3 samples outstanding), debtors (1 query outstanding), collection fund (queries on reconciliation and returns outstanding) and holiday accruals (supporting evidence outstanding).
- Complete final Director and Partner review of audit file;
- Receipt of management representation letter (see appendix G); and
- Review of the final set of financial statements.

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 anticipated audit report opinion will be unqualified subject to satisfactory completion of above outstanding matters. We have been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources.

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 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, which is summarised on page 26, and our detailed commentary is set out in the separate Auditor's Annual Report (AAR). This report is a separate item on the agenda. As per the draft AAR shared with the management on 19 December 2023, we are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 have completed majority of work under the Code and expect to be able to certify the completion of the audit upon completion of specified procedures required on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions

Significant matters

We did not identify any significant matters arising during our audit other than timely responses to audit queries. Further details can be found on page 20.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Council for their support in working with us. The audit team and the Council have worked constructively with the Council to resolve any delays including audit queries to progress the audit by this point.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

As the Council looks to the future, a balanced budget has been set for 2023/24 but there is a widening budget gap over the five year medium term. A new transformation programme is being developed, to start in 2024/25 to address this. Budget planning arrangements remain the same as reported in 2021/22. The current MTFS quoted on the Annual Auditor's Report (AAR) covering 2023/24 to 2027/28 indicates a balance budget for 2023/24 but a budget gap of around £224m. The gap increases steeply from 2025/26 due to an assumed fall in funding due to both the expected Fair Funding Reforms and the delayed Adult Social Care Reforms. In terms of borrowings, the Council's primary consideration has been to strike a balance between securing low interest rates and achieving cost certainty over a period for which funds are required. No new long-term borrowing was undertaken in 2022/23. As at 31 March 2023, the Council's net borrowing position stands at £536m as shown on the table below. As mentioned in our separate AAR, the lack of information on future funding is a national issue but we have seen previously that the Council has a sensible approach to financial planning and budget management.

	31/03/23 Actual £m
General fund CFR	1,389
Less: Other long-term liabilities	(81)
Borrowing CFR	1,308
Less: Balance sheet resources	(772)
Net Borrowing	536



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 will be 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 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 audit plan, as communicated to you in June 2023.

Conclusion

We have largely completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion as detailed in Appendix H.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As mentioned in our audit progress report presented to the Audit and Governance Committee in November 2023 meeting, our audit has been extended due to delays in receipt of required information. This resulted in us having to extend our fieldwork to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. At the time of writing (December 2023), there are still areas to be concluded. 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 audit plan in June.

We set out in this table our determination of materiality for the Council and group.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	31,700,000	31,100,000
Performance materiality	20,605,000	20,215,000
Trivial matters	1,585,000	1,555,000



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.

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Risks identified in our Audit Plan	Commentary	Applicable to
<p>Presumed risk of fraud in revenue recognition ISA (UK) 240</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement 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 ISA 240, and the nature of the revenue streams of Surrey County Council including the Group, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue 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; and • the culture and ethical frameworks of public sector bodies, Surrey County Council including the Group, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Council or Group at the time of our planning however we will keep this assessment under review. There are no changes to the assessment reported in our Audit Plan.</p>	Group and Council
<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. 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>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained 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 inter group journals <p>Similar in previous year, we note that journals are self-approving, meaning that they can be posted without an effective form of review. 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. This is mitigated by review of unusual balances.</p> <p>Our review is complete. There are no other significant issues arising from our review to report to those charged with governance.</p>	Group and Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Applicable to
<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 (£1.29b as at 31 March 2023) 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 2023.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. evaluated the competence, capabilities and objectivity of the valuation expert. wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. engaged our own valuation expert to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. <p>At the time of writing this report, the following are still underway:</p> <ul style="list-style-type: none"> 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>The procedure on OLB revaluation is largely outstanding due to outstanding procedures to be completed such as examination of evidence for floor areas and site plans for all the 38 samples selected. Initial evidence provided in October 2023 however, all evidence cannot be reconciled with the inputs used in the valuation and therefore returned to the Council. Some information are now received on 5th January 2024 and will be processed by GT. In addition, the assumptions used in revaluation are being challenged with the Council's external valuer mainly around assumptions on land values used, and Modern Equivalent Assets (MEA) and build cost indices used for valuation of the Council's Schools. Discussions held with the external valuers and responses to further queries were received on 4th January 2024 (to be processed by GT).</p> <p>We also noted inconsistencies within PPE Note of the accounts to be resolved.</p> <p>The valuer's report has been independently evaluated by our valuation expert Gerald Eve (GE) which raised 40 action points on the report shared with us on 13 October 2023 (2021/22 - 40 action points raised). Of this, 29 points were queried further with the Council's external valuer on 20 October 2023 who then provided initial responses on 20 November 2023. After discussions with the Council's external valuer, a further 7 points were queried to the valuer on 18 December 2023. Responses on the remaining action points were received on 4th January to be processed by GT.</p>	Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Applicable to
<p>Valuation of investment properties</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 (£91m as at 31 March 2023 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 2023.</p> <p>We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. evaluated the competence, capabilities and objectivity of the valuation expert. wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. engaged our own valuation expert to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. <p>At the time of writing this report, the following are still underway:</p> <ul style="list-style-type: none"> 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 for comparable properties test the reasonableness of the assumptions used by the valuer in valuing Investment Properties <p>The evidence of site plans were received on 5th January 2024 and to be processed by GT while one lease agreement from the Council to support the inputs used on the revaluation requested in August 2023 is still outstanding. The assumptions used in the revaluation are also being challenged with the Council's external valuer. Responses to further queries received from the external valuer and will be processed by GT.</p> <p>The external valuer's report has been independently evaluated by our auditor's expert Gerald Eve and no major issues have been identified apart from the lack of formal engagement letter for the valuation to CBRE. This is included on Appendix B.</p>	Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Applicable to
<p>Valuation of the pension fund net liability The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£700.6m in the Council’s balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.</p> <p>A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately -1.5% and 1.5% effect on the liability, respectively. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Council’s pension fund net liability as a significant risk.</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 value of the sums involved (£1.9b in the Council’s prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions.</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>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 Council’s 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 Council 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 consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report. <p>Our testing is in progress including procedures for firefighters’ pension fund. This includes:</p> <ul style="list-style-type: none"> - IAS 19 assurance letter from pension fund auditors; - GT to process responses to queries received from the actuary; - resolution of two minor issues that should be amended in the accounts. 	<p>Council</p>

2. Financial Statements: Other risks

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Risks identified in our Audit Plan	Commentary	Applicable to
<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 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 8 relating to revenue recognition apply.</p>	<p>We have:</p> <ul style="list-style-type: none"> obtained an understanding of the design effectiveness of controls relating to operating expenditure. performed testing over post year end transactions to assess completeness of expenditure recognition. tested a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year. <p>At the time of writing, there are three (3) outstanding samples on other operating expenditures to be completed. We will provide verbal update to those charged with governance on the Audit and Governance Committee meeting.</p>	Council
<p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 8.</p>		
<p>Accuracy and presentation of the Private Finance Initiative (PFI) and similar contracts liabilities and associated disclosures 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. The total liability relating to these schemes in prior year balance sheet was £89m. 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>	<p>We have:</p> <ul style="list-style-type: none"> reviewed your PFI models and assumptions contained therein. compared your PFI models to previous year to identify any changes. reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements. reviewed 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>We have completed our review and noted that the Council picked up incorrect figures on PFI disclosure which the Council have corrected. Also refer to Appendix D for details. No further issues noted.</p>	Council

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.</p> <p>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>We reviewed the group related disclosures and identified a number of minor disclosures primarily due to revised opening balances following finalisation of 2021/22 audit.</p> <p>Similar in prior year, we noted management rely on information from the audited subsidiaries to identify the intercompany balances to be eliminated during consolidation process. Prior year recommendation re-raised in this report (see Appendix C).</p> <p>No further issues noted.</p>
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 28 November 2023.</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 2023 including review of relevant aspects of the component auditor and audit documentation • Challenge the component auditor around the valuation assumptions 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. <p>At the time of writing of this report, we are in the process of reviewing the component auditors' work papers.</p>	<p>No issues raised from the group audit return received from the component auditors. We will update this once review of component's work papers is completed.</p>
Surrey Choices Limited	UHY Hacker Young LLP	<p>The component auditor issued an unqualified opinion on the accounts on 20 July 2023. Analytical review procedures is complete.</p>	<p>Our review is complete. No significant issue 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
Hendeca Group Limited	Kreston Reeves LLP	The component auditor issued an unqualified opinion on the accounts on 15 December 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	Kreston Reeves LLP	2021/22 was the first year Halsey Garton Residential Limited was consolidated in its own right. The component auditor issued an unqualified opinion on the accounts on 4 August 2023. Analytical review procedures is complete.	Our review is complete. No significant issue arising from our review to report to those charged with governance.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – £1,427m Surplus Assets £34m</p>	<p>Other land and buildings comprises £290m 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 remaining assets of other land and buildings (£21.2m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. Other assets such as Surplus, Assets Held for sale were valued using Market Value approach. The Council has engaged Montagu Evans to complete the valuation of properties as at 31 March 2023, on a five yearly cyclical basis. 22% of total assets were revalued during 2022/23.</p> <p>With regards 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 due to the inflationary pressures in the market there would be a potential increase of approximately £38.8m in the value of assets valued at DRC, such as schools, buildings etc. This means that the assets are potentially understated at the Balance Sheet date. It must be noted however the data used for schools are not very specific so schools and therefore the £38.8m may be an over representation of the overall impact.</p> <p>The total year end valuation of land and buildings was £1,427m, a net increase of £98m from 2021/22. 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"> assessment of management's expert, Montagu Evans LLP, to be competent capable and objective ensuring the valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties agreeing the valuation reports provided by management's expert to the fixed asset register and to the financial statements checking the valuation methodologies applied are consistent with those applied in the prior year assessed the value of a sample of assets in relation to market rates for comparable properties. <p>At the time of writing, the following procedures are still in progress.</p> <ul style="list-style-type: none"> reviewing 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. challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding including following up queries from our expert valuer, Gerald Eve with management <p>We have received responses to our further queries and evidence of inputs from the external valuers and the Council in early January 2024, respectively, which GT will process.</p>	<p>TBC upon completion</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: key judgements and estimates

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
Investment Property Valuation - £91m	The Council changed valuer for the valuation of it’s investment properties (IP) in 2022/23. 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.	<p>Our planned procedures included:</p> <ul style="list-style-type: none"> • 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. <p>Whilst the work is currently in progress, our initial assessment is that the estimate as shown to the right is neither optimistic nor cautious.</p>	Light Purple

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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 – £700.6m

The Council's net pension liability at 31 March 2023 is £700.6m (PY £1.9b) comprising the Surrey Pension Fund and the Firefighters' Pension scheme. 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 in 31 March 2022 (representing year zero of triennial valuation). 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 liability, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £1.2b in the overall net pension fund liability in 2022/23.

- We have assessed the actuaries, Hymens Robertson, to be competent, capable and objective.
- We have assessed the actuary's approach taken to confirm reasonableness of approach
- 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	4.75%	4.75% p.a. for all employers	●
Pension increase rate	2.95%	Unadjusted: 2.85% to 2.90% p.a.; Adjusted*: 2.95% to 3.00% p.a. for all employers.	●
Salary growth	3.95%	Typically assumption will be between CPI and CPI + 1.0% p.a.	●
Life expectancy – Males currently aged 45/65	Current pensioners: 22.1 years Future pensioners: 22.9 years	Figures within the IAS19 results schedule may now show individual employer level life expectancies). As a result of the significantly larger differences at individual employer level (in comparison to LGPS fund averages), the life expectancy ranges may now be significantly wider at both the lower and upper bounds. The potential difference in range can be around 8-10 years at the extremes of individual employer level life expectancies.*	●
Life expectancy – Females currently aged 45/65	Current pensioners: 24.7 years Future pensioners: 26.0 years		●

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 – £700.6m, cont'd		<ul style="list-style-type: none"> With regards to the mortality on the PwC report, they are comfortable with Hyman's approach to estimating mortality rates. To obtain further assurance, we have done a comparison to the prior year mortality rates, and did not note any significant differences. We have reviewed the completeness and accuracy of the underlying information used to determine the estimate We have confirmed there were no significant changes in 2022/23 valuation method and IAS19 assumptions are reasonable. We are have reviewed the reasonableness of the Council's share of LPS pension assets. We have reviewed the reasonableness of increase/decrease in estimate We have reviewed the adequacy of disclosure of estimate in the financial statements <p>Our audit is in-progress including procedures on firefighters' pension scheme.</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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
SAP	ITGC assessment (design and implementation effectiveness only)					None identified.
SAP, E-Suite, Wisdom	ITGC assessment (design and implementation effectiveness only)					None identified.
Altair	ITGC assessment (design and implementation effectiveness only)					None identified.

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

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

In 2022/23 audit, there has been an improvement in terms of receipt of working papers and audit evidence. Majority of the working papers were provided to us by the finance team before the commencement of our fieldwork though we experienced unexpected delays in receipt of listings for samples selection. Additionally, some working papers fell short of our requirements particularly around income and expenditures, Property, plant and equipment, investment properties and payroll (e.g. cleansing of transaction listing for other operating expenditures and fees and charges require significant effort). Working papers can be further improved and opportunity to make the cleansing of transaction listing using available reports be explored to save significant amount of time and additional audit fees arising from testing extra samples.

Similar in prior year, 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. We have also put in place escalation process with more senior member of finance staff to emphasise overdue requests.

As per our progress report in November 2023, our original target date (September 2023) of completing the audit was extended by another two weeks. During this time, both the finance team and our team have been working alongside completion of 2021/22 audit which has been completed and signed in October 2023. As our audit procedures for 2022/23 have not been concluded, we extended further our fieldwork between November and December 2023 based on individual team members availabilities however at the time of writing, there are areas that are still to be concluded.

We resumed the audit and reallocate resources in January 2024 to conclude the few outstanding areas as detailed in Slide 3.

As part of our review of the accounts, we also noted that the Council considered comments from the prior year hot review where a number of non-compliance with the CIPFA Code of Practice was identified. Given the timing of finalisation of the prior year accounts, some of these were reflected after the 2022/23 accounts publication.

Commentary

Audit team continues to work collaboratively with the finance team in the following ways including:

- joint weekly updates attended by the Senior Audit Manager and the Audit Manager
- regular up between the Assistant Manager and other members of the audit team and members of the finance team
- Minutes of discussions of query log shared with finance team and queries/requests RAG rated to highlight urgency.
- Providing weekly, written updates on audit progress to members of the finance.

We acknowledge improvements made in 2022/23 accounts however we recommend the Council to continue to strengthen its quality review arrangements and ensure that fundamental errors are remediated before the accounts are published. This should also include process to compile all adjustments (both by Council and auditor) into an organised working paper to facilitate reconciliation of initial and closing balances. These adjustments should be supported by necessary backing evidence and included on the journals to be posted on the system. For notes to the accounts, the management may want to revisit its working paper to ensure that adjustments flow through to the face of financial statements, notes to the accounts and to the group financial statements. This will minimise inconsistencies within the accounts.

Auditor view and management response

Management response

The Finance Team continue to work collaboratively with the external audit team to improve processes, speed up the audit and ensure clarity of audit queries. As the narrative suggests there are further improvements to be made in this area, including ensuring the use of the auditors online tool for capturing and tracking audit queries. This should be the single point of reference and hold a single version of the progress of the audit. Where this is not used and audit queries are sent via email from individual auditors then it increases the occurrence of duplicate queries being asked, evidence needing to be sent more than one and also causes delays when individuals are no available.

The delays in completing the 2021/22 audit had a detrimental impact on the quality of the accounts submitted for 2022/23, including resulting in changes to opening balances, as is inevitable in the circumstances.

The Council has made a number of improvements to the quality assurance process for 2022/23, as recognised by the auditors, however there is more to do. Further training will be provided to all staff involved in audit query responses and the development of audit working papers to ensure the standard required is understood. The Council will also look to implement a secondary review for each disclosure note, before submission of the draft accounts.

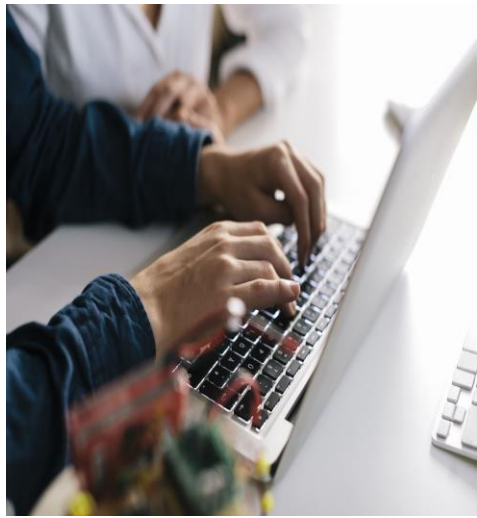
As part of the transition to the new ERP system, the Council are looking to automate more of the accounts preparation procedure, this should reduce the risk of input error and cross referencing inaccuracies.

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. 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 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 and component auditors. This permission was granted and the requests were sent and received.
Accounting practices	We have evaluated the appropriateness of the Council and Group'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.</p> <p>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 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 Group and the Council, and the environment in which it operates the Group and the Council's financial reporting framework the Group and 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 and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H.</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 2022/23 audit of Surrey County Council in the audit report, as detailed in Appendix H, until after the conclusion on Whole of Government Accounts.</p>

3. Value for Money arrangements (VFM)




Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require 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.


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 <p>Improving economy, efficiency and effectiveness</p> <p>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.</p>	 <p>Financial Sustainability</p> <p>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)</p>	 <p>Governance</p> <p>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</p>
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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 is presented alongside this report.

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.

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 and consider that an objective reasonable and informed third party would take the same view. 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 statement.

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 E.

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 [Grant Thornton International Transparency report 2023](#).

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 service was identified and no threats to our independence have been identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	10,000	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 £10,000 in comparison to the total scale fee for the audit of £279,905* 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.
Non-audit related			
None			

* Subject for review and finalisation which will be communicated on the final audit findings report.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Management Letter of Representation
- H. Audit opinion

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.



B. Action Plan – Audit of Financial Statements

We have identified 13 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management. 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
	<p>User access was not terminated on timely basis in Altair</p> <p>During our audit, we noted that the termination process of Altair depends on quarterly review to identify and terminate obsolete users.</p> <p>Additional procedure has been performed and noted that for 8 leavers’, their Altair access was not disabled timely after their date of leaving.</p> <p>Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions. There is also a risk that these accounts may be misused by current system users to circumvent internal controls</p>	<p>It is recommended that for all leavers, logical access to Altair and corresponding IT infrastructure is disabled on their leave date. Where this is not possible, access should be disabled no later than the next working day. This will help prevent unauthorised access to the network, applications and underlying data.</p> <p>Management response</p> <p>Altair was moved from Surrey CC hosted servers to Heywood hosted servers as part of business continuity purposes. As part of this move there were increased security levels for accessing Altair implemented, being that Surrey IT provided a list of approved IP addresses to Heywood that would only allow access to be made via a work laptop after having logged in to the device.</p> <p>Additionally, a further user log in step was added to access the database on the new provider hosted services, which now requires all users to follow a 2 step log in via Ping and then again via Altair, using separate login details.</p> <p>To support this change, the process in place to manage user access when employees leave is for management to notify our systems team when a member of the team is leaving, so Ping and Altair access can be removed. Additionally in line with SCC corporate policy, laptops are returned on an employee’s final day of leaving, so the Altair system cannot be accessed without this laptop.</p> <p>The system team continue to run a quarterly report to capture any cases that may have been missed, so Heywood can be notified to remove access.</p>

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Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p><u>Users identified with inappropriate access to ABAP debugger in production</u></p> <p>ABAP debugger is used for performing debugging functions such as inserting a code to correct any errors in the source code. Users are therefore able to execute unauthorised transactions through these amendments to code.</p> <p>We noted that there were 7 interactive accounts assigned with access to ABAP Debugger in production granted via S_DEVELOP authorisation object in change mode. Please refer to Appendix B for details.</p> <p>Unauthorised access to ABAP debugger granted via S_DEVELOP authorisation object in change mode increases the risk of unauthorised change or deletion of table entries including tables that are typically protected by SCC4, the ability to perform debugging functions by inserting break-point statements into program code and the ability to bypass authority checks and execute transactions user is not authorised to execute through inserting break-point statements into program code and bypassing authority checks.</p>	<p>It is recommended that the management should remove ABAP debugger access permanently from production.</p> <p>It is best practise to use firefighter accounts with an approved business case and set validity period.</p> <p>Management response</p> <p>Four System accounts are disabled, three are technical users.</p> <p>Action plan is to investigate removing the debug access from Technical users.</p>
	<p><u>Segregation of duties conflicts between SAP change develop and implementer access</u></p> <p>During our audit, a segregation of duties conflict was observed for three users who were assigned SAP development key along with ABAP developer access in the development environment (via SAP t-code SE38 or SE37 or SE80 or SE11 or SE11_OLD or SE13 or SE14) and transport access in the production environment (via t-code STMS with S_TRANSPRT and RFC authorisations). Please refer to Appendix C for details.</p> <p>We also observed that there was no proactive monitoring in place to verify the appropriateness of any developers also implementing their own changes.</p> <p>The combination of access to develop changes and the ability to implement those changes in production is a segregation of duties conflict that could lead to an increased risk of inappropriate or unauthorised changes to data and programs being made.</p>	<p>Management should review these access assignments to ensure developers do not also have access to transport utilities in the production environment that would allow changes to be implemented.</p> <p>Where management believes for operational reasons, this access cannot be fully segregated a risk assessment should be undertaken and other mitigating controls considered (i.e. periodic monitoring of changes to identify those with the same developer and implementer and verify appropriateness).</p> <p>Management response</p> <p>The findings and recommendations are acknowledged. In response, 4 system accounts have since been disabled. The remaining 3 are technical support users. Although the risk is present, there is a clear process and segregation of duties. Only System Admin (Basis) users are permitted to transport changes through to Production. Developers are not allowed to move any transports, and this process has been adhered to.</p> <p>IT management will remove transport access in Production from the 3 Technical support users who have development access.</p> <p>IT management will also ensure that the appropriate change management controls are in place for the new ERP system Unit 4.</p>

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p><u>SAP Vendor support accounts are not deactivated on timely basis in SAP</u></p> <p>During our audit, we noted that vendor accounts are restricted to third-party’s access with appropriate prior request and approval for technical support. We noted that the vendor accounts remained unlocked after the support had been completed.</p> <p>Without formal process to manage vendor access requests with documentation to evidence the requests and approval, and timely deactivating external entity’s access, it increases the following risks: vendor access may not be appropriately aligned to requirements which may lead to inappropriate access within the application or underlying data. unauthorised access to system resources and making inappropriate change to system data</p>	<p>It is recommended that Management:</p> <ul style="list-style-type: none"> Implement formal policies and procedures for all vendor access requests including retention of documentation, such as details of user access rights required, approver authorisation and the effective date the access needed, to be changed or removed. For access that is no longer required, this must be disabled on their effective move / leave date. Where this is not possible, access should be disabled no later than the next working day. This will help prevent unauthorised access to the applications and underlying data. Monitor vendor access and review the audit log to identify any abnormal activities performed during third-party access. <p>Management response</p> <p>The Council’s third line support vendor, SAP, were engaged to assist with issue resolution. The procedure normally included access approval and assignment of a validity date to the support vendor user access. On this occasion a request for extended access was given but no validity date was assigned which was an oversight.</p> <p>IT management will review its procedures to ensure more robust, taking on board audit recommendations, and these will also be applied within the system management of the new Unit 4 ERP.</p>
	<p><u>Business users with access to perform batch administrative functions</u></p> <p>We noted 71 unique accounts belonging to business users with access either to schedule jobs under other IDs using SM36 transaction, or to change the job steps, change the ID and release the job for processing using SM37 transaction.</p> <p>A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to</p> <ul style="list-style-type: none"> - unauthorised changes being made to system parameters - creation of unauthorised accounts, - unauthorised updates to their own account privileges - deletion of audit logs or disabling logging mechanisms 	<p>Management should adopt a risk-based approach by creating a segregation of duty matrix.</p> <p>Management should consider assigning SM36 and SM37 access to business users from different entities without S_BTCH_ADM and S_BTCH_NAM authorisation objects.</p> <p>If incompatible business functions are granted to users due to organisational size constraints, the management should ensure that there are review procedures in place to monitor activities, e.g. reviewing reconciliations of account balances.</p> <p>Management response</p> <p>Some business users require access to SM36 and SM37 as part of their activities. IT management work with the business to contain the number of roles/users who have access to Auth. Objects S_BTCH_ADM & NAM. Where this is not possible, review procedures will be implemented to monitor the activities of those users.</p> <p>In response to these findings and recommendations, IT management will also review the arrangements for batch processing within our new ERP system Unit 4.</p>

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p><u>Business user with inappropriate access to maintain all SAP Standard or Customised tables in production</u></p> <p>Our audit procedures identified an inappropriate user [See Appendix D] that was assigned access to maintain all SAP standard or customised tables via SM30 or SM31.</p> <p>Access to maintain all standard or customised SAP tables creates a risk that unauthorised table maintenance functions can be performed and result in data integrity issues.</p>	<p>Management should segregate a user’s ability to maintain all the standard or customised SAP tables within production.</p> <p>We recommend that for the user identified, management should consider assigning access to relevant table groups or individuals tables via S_TABU_DIS and S_TABU_NAM authorisation objects, rather than assigning the “*” authorisation value to restrict the level of access granted to users.</p> <p>Management response</p> <p>The user identified with inappropriate access to maintain tables have had their table access removed. IT management will restrict table access by groups or individual tables going forwards. Although the findings and recommendation outlined are specific to SAP, the security model for Unit 4 will ensure business users do not have such access.</p>
	<p><u>Lack of segregation of duties to configure and delete audit logs in production</u></p> <p>During our audit, we noted that 12 users have access to both SM19 (configure audit log) and SM18 (delete audit log) in the production environment. These users were understood to be IT officers from technical support teams. Please refer to Appendix E for details.</p> <p>Access to audit log configuration (via SM19) within SAP gives users the ability to create, modify or delete (via SM18) audit logs owned and configured by other users. Where this ability is not appropriately restricted, audit logs may not be sufficiently maintained. Sufficient logs may not be available in the event of investigations for error or fraud detection.</p>	<p>Management should segregate a user’s ability to configure (SM19) and delete (SM18) user security event logs within production. We also recommend the management also review the assignment of this access. Where possible, limit users with these privileges assigned to members of the System Support and related service teams.</p> <p>Any users that do not require these privileges in an ongoing manner to perform their job role should have this level of access removed.</p> <p>If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include usage of Firefighter accounts with a set validity period based on formal approvals.</p> <p>Management response</p> <p>The audit findings and recommendations are fully acknowledged. Of the 12 users, 3 have been disabled, 4 are system users and the remaining are technical support team members.</p> <p>IT management will review access requirements and look to segregate by user as recommended. A similar review will be conducted of the system management arrangements within Unit 4.</p>

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Generic account management</p> <p>During our audit, we observed 10 generic dialog accounts that had privileged access within SAP. Of these, 5 accounts were firefighter account not in use, and 5 accounts were managed by the SAP support teams for background jobs execution. Please refer to Appendix F for details.</p> <p>We noted that the activities performed via these generic accounts were not proactively monitored by management to ensure they were only used by appropriate individuals and for approved reasons.</p> <p>Activities performed via shared generic accounts may not be linked to specific individuals, eroding accountability. Unauthorised transactions performed via these accounts may not be detected.</p>	<p>Management should consider performing an evaluation of the appropriateness and necessity of the generic accounts identified. This should include consideration of whether:</p> <ul style="list-style-type: none"> Activity could be performed through individually named users accounts with generic accounts reduced and only used for specific pre-approved activity; and Accounts within the SAP application could be made into ‘SYSTEM’ user type, to allow them to run background jobs but not be directly accessible for login. If accounts are obsolete or not-in-use and if they could be disabled or deleted. <p>Where these controls will be owned / operated by external organisations management should consider disabling the accounts and only enable these accounts on need. Activities performed by the third parties should be monitored.</p> <p>Management response</p> <p>Of the 10 accounts highlighted, 9 have since been disabled. IT management will ensure the remaining user ‘RPA_026’ is disabled if no longer required or switched to a system user type account as recommended, specifically those relating to system access within Unit 4.</p>
	<p>Improvement to the password policy used in SAP access authorisation</p> <p>During our audit, we noted that password used to access SAP is following the password policy configured in IDM. We noted that the following settings could be improved:</p> <ul style="list-style-type: none"> Maximum failed logins = 50 times Password history = 0 <p>A lack of robust password settings may allow financial information to be compromised by unauthorised users. In particular:</p> <p>Without restricted failed login attempts, it might create opportunities for brute-force attack for unauthorised user gaining access after guessing the password.</p> <p>If password history is not maintained, a user may recycle the same password over a long period.</p>	<p>Management should ensure that password settings configured on the applications are in line with the best practice or Council’s standards.</p> <p>We recommend that password parameters for SAP should be configured to meet best practice guidelines such as those recommended by NCSC, see https://www.ncsc.gov.uk/collection/passwords/updating-your-approach#:~:text=The%20NCSC%20is%20working%20to%20reduce%20organisations%27%20reliance,your%20wider%20access%20control%20and%20identity%20management%20approach.</p> <p>Where configuration settings cannot be strengthened due to system limitations, management should undertake a risk assessment and implement additional compensating controls.</p> <p>Management response</p> <p>For similar password parameters in SAP, they are as follows:</p> <p>login/fails_to_user_lock = 3</p> <p>login/password_history_size = 1</p> <p>Although these parameters are different to those set in IDM. They are valid in SAP.</p> <p>If a user logs in incorrectly three times in SAP they will be locked out.</p> <p>IT management will liaise with the IDM team and share the audit recommendations. These will also apply to Unit 4 access.</p>

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment Issue and risk

Procedures on PPE and Investment Properties Revaluation are still in progress at the time of writing:

The Council confirms that review of valuation reports from their external valuers is part of their control procedures however the audit team have not been able to verify this due to lack of audit trail. This at a minimum should include assessment of the valuer's accounting model, that source inputs used in the revaluation are consistent with what was provided and key assumptions used are well understood and reasonable based on industry practice. There have been challenges as well in obtaining evidence for the source inputs used in the calculation such as evidence of floor plans/site areas which suggests lack of stringent record-keeping of information shared with the external valuer.

Our external valuer we engaged to review the Council's external valuation report also noted that there is no formal engagement letter in place. Having one is a requirement of the RICS Global Standards (the Red Book). The Proposal letter was instead provided by the Council which contains much of the information expected (but not all) to be set out under the Red Book and it would be unusual not for the client to be asked to sign on behalf of the entity to indicate acceptance.

At the time of writing, the procedure is still ongoing. Further update will be provided through our final audit findings report.

Recommendations

The Council has process in place to document understanding of the valuation report from the external valuer however, we recommend this to be revisited to ensure that appropriate challenge is made and evidenced in one place in order to prevent errors on the valuation. This can be achieved by:

- Stringent process to ensure methodologies of the external valuer are well understood. This includes check of accuracy of inputs and assumptions used in the calculation. This would help minimise risk of clerical errors. In doing so, all information shared with the external valuer should be kept in a folder so these will be readily available for external reviewer. The source inputs should be validated on the valuation model used by the Council to ensure correct information are used.

- We understand that the Council has active engagement with the external valuer however we suggest challenges on the assumptions undertaken on a timely manner and should be evidenced (e.g. via email) rather than just verbally agreed.

- Signed engagement letter with the valuer should be in place in compliance with the Red book.

Management response

Checks are not carried out on the inputs used, as the Council do not provide the valuers with a 'folder' of information at the start of the exercise. The valuers are provided with access to the Council's online asset database and source information directly from there. This reduces the risk of input error.

Historically the council queries significant valuation changes individually with the valuer and kept an audit trail of such changes. This was time consuming and required a line by line review the valuation report. For 2022/23, at the time of commissioning the valuation report, the valuers were asked to provide specific information on any changes in values of +/- 20%, reducing the need for follow up queries and multiple emails. This change in approach has resulting in the Council not being able to demonstrate challenge provided but has not reduced the level of challenge provided or the necessary assurance over the valuations provided.

The lack of a formal engagement letter was an oversight for 2022/23 and has already been resolved in the engagement carried out for the valuations for the 2023/24 audit.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Financial statements preparation – precision of management review</p> <p>Our audit of the financial statements revealed a number of fundamental errors on the financial statements such as:</p> <ul style="list-style-type: none"> We have completed the 2021/22 audit in October 2023 whilst working on the 2022/23 audit. This means that a lot of comparative balances in the 2022/23 draft accounts published in June 2023 by the Council have changed. These have been amended on the 2022/23 comparatives following finalisation of the 2021/22 audit in October 2023. The changes to the draft accounts resulted in additional procedures from our end to ensure opening balances used within our procedures and/or work papers agree with the audited version. It is given that some prior year amounts disclosed won't match with the 2022/23 comparative on the financial statements as the 2021/22 audit was still in-progress when 2022/23 draft accounts was published but we noted a few instances where the 2021/22 amounts were disclosed for 2022/23. E.g. all 2022/23 figures on Note 28 (Exit Packages) have not been updated and therefore reflects the prior year disclosures. Changes made on other information included within the statement of accounts during the audit which should have been captured before the accounts are published. E.g. incorrect years quoted and outdated organisational governance. A number of adjustments on the statement of accounts noted since publication as evidenced by a number of version of accounts; Some of these adjustments are merely classification error but resulted in delay in our sampling selection. E.g. incorrect mapping of income between fees and charges and grant income. Another example is Noncurrent assets note where the total amount was correct but the mapping of movements between reclassifications or revaluation was wrong. Typographical and obvious casting errors within the financial statements; Group accounts can be improved to easily follow intercompany transactions with corresponding notes added to the file. This means that changes agreed on the separate Council financial statements are also picked up on the group accounts. We raised separate recommendation on Group accounts preparation. 	<p>We suggest management to revisit their financial reporting process and ensure that sufficient level of management oversight and/or secondary reviews are implemented to ensure errors, minor or major, are remediated before these are circulated to the Audit and Governance Committee for approval and before the draft is published on the Council's website. Evidence of review should also be put on file to ensure accountability.</p> <p>For other information such as the annual governance statement, the Council may want to revisit timing of review to ensure details are accurate and to minimise fundamental errors.</p> <p>Management response</p> <p>The delays in completing the 2021/22 audit had a detrimental impact on the quality of the accounts submitted for 2022/23, including resulting in changes to opening balances, as is inevitable in the circumstances.</p> <p>The Council has made a number of improvements to the quality assurance process for 2022/23, as recognised by the auditors, however there is more to do. Further training will be provided to all staff involved in audit query responses and the development of audit working papers to ensure the standard required is understood. The Council will also look to implement a secondary review for each disclosure note, before submission of the draft accounts.</p> <p>As part of the transition to the new ERP system, the Council are looking to automate more of the accounts preparation procedure, this should reduce the risk of input error and cross referencing inaccuracies.</p>

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Depreciation</p> <p>Based on our review of our fixed asset register, we noted that a total of £6.9m and £17.7m of PPE (other than infrastructure assets) and intangible assets, respectively, have been fully depreciated for period averaging between 3-6 years. Management confirmed that these assets are still in use and therefore have not been removed from the fixed asset register. In addition to that, a total of £19m gross cost of PPE still sit within their fixed asset register that should have been removed on the basis that they are no longer in use.</p>	<p>We suggest that the Council revisit their accounting policy for useful economic lives to ensure these still reflect the most reasonable estimate. Impact may not be material year on year on depreciation expense but may be material cumulatively if left uncorrected.</p> <p>For those assets that are no longer in use, these should be removed from the fixed asset register so these do not result in inflated gross cost and accumulated depreciation. And in doing so, the Council should ensure this is undertaken in accordance with the approved disposal policy.</p> <p>Management response</p> <p>The Council will review the useful economic live policy, although it should be noted that this issue effects a very small number of low value assets which have in reality reached the end of their useful lives but continue however to be utilised. The alternative approach would be to revalue these assets to ensure a net book value is recording in order to provide a depreciation charge for the year. The amounts in question, given they have reached the end of their useful life would be immaterial.</p> <p>The council will strengthen the annual process to identify assets not longer in use , but not formally disposed of.</p>
	<p>Accruals completeness</p> <p>Our cut off procedures noted 2 samples that have not been not been accrued for. The total value of these samples was £9k which is less than 1% of the population. As per the Council guidelines it is not just the De minimus level of £1k that determines whether an accrual is raised or not. The guidelines also states “Services and budget holders can determine a higher threshold under which they do not process accruals. A suitable threshold will depend on the value of the budget and be at a level that ensures income and expenditure is materially accurate (ie the cumulative effect of not processing all the potential accruals below the threshold does not materially impact the accounts). Each service area would have different budgets so will make individual decisions.”</p> <p>Although we note that an accrual process is in place to ensure completeness of accruals at year end, our substantive procedure on completeness identified 2 fails that as per confirmation from processors, are genuine error. We’ve not received any further information on whether these 2 failed samples can have a higher threshold to not be accrued for.</p>	<p>We recommend the Council revisit their accrual process and ensure that this is strictly followed by accrual processors. This should be backed by senior review to help mitigate risks of error. The Council may also include recommendation on clarity on what particular instance may allow higher thresholds and reason for not accruing documented.</p> <p>Management response</p> <p>The accruals policy is clear in relation to the de0minimu level of accruals. The Council will strengthen the policy in relation to providing other examples of when accruals are not required. A review of the year end accruals posted is already in place, however it focuses on identifying errors that would lead to a material misstatement in the accounts. We will review the process to see if there is a way of extending this without creating disproportionate workload to identify immaterial accrual omissions.</p>

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Surrey County Council's 2021/22 financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings report. Please note that in 2021/22, a combined audit findings report with for Surrey County Council and Surrey County Council Pension Fund was produced. This report only covers the audit findings for the Council. We have followed up on the implementation of our recommendations and note 4 are still to be completed including 2 that are in progress.

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
X	<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 of Anaerobic Digester.</p> <p>Management response (2021/22)</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> <p>Management response (2022/23)</p> <p>As recognised in the 2021/22 response, formal valuations of plant and machinery assets such as this are not common. It has not therefore been possible to get a formal valuation of the Anaerobic Digester for the 22/23 accounts. For 2023/24 the Council will consider alternative ways to evidence the appropriateness of the carrying value in the accounts.</p>
In progress	<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 (2021/22)</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> <p>Management response (2022/23)</p> <p>Due to the delays to the making of the recommendation for 2021/22, it has only been possible to partially implement improvements to quality checks and closedown reviews. For 2023/24, further training will be provided to all staff involved in audit query responses and the development of audit working papers to ensure the standard required is understood. The Council will also look to implement a secondary review for each disclosure note, before submission of the draft accounts.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
In progress	<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 (2021/22)</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> <p>Management response (2022/23)</p> <p>The Council implemented changes for 2022/23 and there have been no issues raised in respect of 2022/23.</p>
✓	<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 Hansley 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>2022/23 update:</p> <p>This recommendation has been resolved however, we raised a separate recommendation (see Appendix A), for noncurrent assets that we noted are no longer in use but are still sitting within the Council’s fixed asset register.</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 (2021/22)</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> <p>Management response (2022/23)</p> <p>We carried 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. This was not an issue for 2022/23</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
X	<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>2022/23 update:</p> <p>Similar in 2021/22 audit, the Council does not maintain separate monitoring of intercompany transactions or balances and merely rely on audited financial statements of subsidiaries.</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 (2021/22)</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> <p>Management response (2022/23)</p> <p>Improvements have been made to the assurance checks carried out by the corporate finance and commercial finance teams, to ensure the reasonableness and effectiveness of intercompany balances. The transition to a new system will present an opportunity for the Council to review and further strengthen the process.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit Adjustments

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

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 2023.

Detail	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 of £10,834 resulting in increase in local taxation general grants and contributions. Management to confirm the corresponding specific balance sheet accounts affected.	(10,834)	10,834	-
Error in presentation of borrowings to be corrected with below adjustment:			
Dr. Short term borrowing		2,658	
Cr. Long term borrowing	-	(2,658)	-
Above adjustment has been agreed with management but this has not been reflected on the latest version of accounts.			
Overall impact	(10,834)	10,834	-

D. 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/issue/Omission	Auditor recommendations (amounts in £'000)	Adjusted?
Note 1: Expenditure and Funding Analysis	<p>Changes noted as follows which are primarily driven by adjustments made to the accounts</p> <ul style="list-style-type: none"> - Adjustments to arrive at the net amount chargeable to the General Fund from (£60,894) to (£29,630) - Adjustments between the funding and accounting basis from £161,207 to £126,482 - Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit revised from £55,767 to £7,804 <p>Above differences to be reconciled to the final version of the accounts.</p>	✓
Note 2: Income and expenditure analysed by nature	<p>The Comprehensive Income and Expenditure deficit was reduced to £96,199. This is due to the following changes:</p> <ul style="list-style-type: none"> - Total expenditure adjusted from £2,494,106 to £2,501,478. This is attributable to £6,367 and £1,005 adjustments on loss in fair value of investment properties and other service expenses, respectively. In addition, evidence for three (3) samples selected as still outstanding. - Total income adjusted from £2,394,445 to £2,405,279. This is due to £10,834 adjustment on income from council tax and business rates. In addition, without impacting the total, we noted presentation issues within income resulting in the following adjustments: £776,306 increase in government grants and contributions, £757,558 decrease in fees, charges and other service income and £18,747 decrease in gain on sale of disposal of non-current assets. At the time of writing, we are still waiting for the explanation of difference between population listing for fees and charges provided to us for sampling of £346,831 and latest position of £361,721. In addition, evidence for three (3) internal recharges picked up as samples are still outstanding. 	✓
Note 5: Assumptions made about the future and other major sources of estimation uncertainty	<ul style="list-style-type: none"> - Amounts disclosed for assets valued under Estimated Use Value basis and the amount of sensitivity for Pension Liability were outdated. This has been adjusted on the latest draft accounts. - The amount of sensitivity analysis on valuation uncertainties have not been disclosed. Management agreed to adjust. 	✓
Note 12: Council tax and general grants & contributions	<p>The total council tax and general grants and contributions was adjusted from (£1,172,871) to (£1,183,705) due to adjustment on income from local taxation as follows:</p> <ul style="list-style-type: none"> - Council tax income from (£836,400) to (£844,052) - Business rate income from (£104,289) to (£107,471) <p>We also noted presentation error on non ring-fenced government grants of £33,752 which should have been presented as grant income credited to services. These change should also be reflected on CIES. Management agreed that this will be adjusted to the latest draft accounts so amount will further be adjusted from (£1,183,705) to (£1,149,953).</p>	✓

D. Audit Adjustments

Disclosure/issue/Omission	Auditor recommendations (amounts in £'000)	Adjusted?
Note 13: Property, plant & equipment	<p>We noted a number of adjustments due to error in accounting for movements in the balance specifically on revaluation gain or loss, transfers between asset classes and disposals as follows:</p> <ul style="list-style-type: none"> - Revaluations increases recognised in the Revaluation Reserve from £168,695 to £147,986 - Revaluations decreases recognised in the Revaluation Reserve from £26,832 to £24,222 - Transfers between asset classes from £31,403 to £5,315 - Derecognition and disposals (cost) from £8,547 to £1,497 - Derecognition and disposals (accumulated depreciation) from £887 to (£6,163) - Amount disclosed under "Revaluation changes" therefore has to be updated too. The latest draft accounts still reflect the incorrect revaluation movement in Note 13, Note 23 Unusable Reserves under Capital Adjustment Account and the Comprehensive Income and Expenditure Statement but management confirmed this will be adjusted. 	✓
Note 14: Investment properties	<p>Income and expenditure in relation to investment properties adjusted from £2,152 loss to £12,968 gain. This is due to adjustment on net gain/(loss) on fair value adjustments to tie-up with the valuation report. Management confirmed that revaluation amounts of three (3) properties were not disclosed in the draft accounts. The management then adjusted the remaining amount of valuation to reflect the correct position of the revaluation gain/ (loss) to £12,391 as per the valuation report.</p> <p>Ending balance of investment properties was adjusted from £97,552 to £91,385. This is attributable to adjustment on Net gain/(loss) from fair value adjustments mentioned above.</p> <p>Amounts of balance start of year disclosed on fair value hierarchy have not been updated to reflect the amounts per 2021/22 audited financial statements.</p>	✓
Note 16: Financial instruments	<p>Cash was not clearly described in the financial instruments note. It was described as cash but measured at Fair value through Profit or loss "cash" is not an appropriate description if the classification is FVPL. FVPL stands for fair value through profit or loss, which refers to assets or liabilities that are held for trading purposes. These assets or liabilities are recorded at fair value, and any changes in their fair value are recognized in profit or loss. It is important to use the correct description to accurately reflect the classification of financial instruments under relevant accounting standards and to provide transparency and clarity to users of the financial statements.</p> <p>Under categories of financial instruments, short-term creditors was incorrectly disclosed as £176,107. This has been updated to the correct amount of £174,404 while short-term debtors has been adjusted from £176,107 to £180,479.</p> <p>There was an error in the in the date of which annual treasury management strategy was approved by the he Audit and Governance Committee. The date was stated as 29 January 2022 instead of 24 January 2022. This has not been adjusted.</p> <p>The Maturity analysis % did not sum to 100%. Both 2022/23 and 2021/21 are wrong. Management confirmed this will be adjusted.</p>	✓

D. Audit Adjustments

Disclosure/issue/Omission	Auditor recommendations (amounts in £'000)	Adjusted?
Note 17: Short term debtors	We noted an adjustment of £7,896 due to increase in collection fund debtors and other debtors of £3,525 and £4,371, respectively. Movement in collection fund debtors are being tested while the movement on other debtors have been queried with management pending response at the time of writing.	✓
Note 19: Assets held for sale	Error noted on classification of movement of assets held for sale with nil effect on the total balance as follows: <ul style="list-style-type: none"> - Assets newly classified as held for sale from PPE was adjusted from £21,159 to £3,050 - Revaluation gain from £1 to £20,848 - Revaluation loss from £2,970 to £5,709 	✓
Note 20: Creditors	We noted an adjustment of £6,178 due to increase in receipts in advance of £10,740 offset by decrease in collection fund debtors and other creditors of £2,310 and £2,252, respectively. Movement in collection fund creditors are being tested while the movement on receipts in advance and other creditors have been queried with management pending response at the time of writing.	✓
Note 22: Usable reserves	Adjusted to reflect changes in transfers in and out within revenue earmarked reserves resulting in net £87,464 reduction in earmarked reserves.	✓
Note 23: Unusable reserves	Adjusted to reflect changes in pensions reserve, collection fund adjustment account, DSG adjustment account and accumulated absences account resulting in net increase on Unusable Reserves of £290,152.	✓
Note 26: Officers' remuneration – senior officers	<ul style="list-style-type: none"> - Total remuneration for 2021/22 should be £1,628,058 - Remuneration for Director for Community Protection and Emergencies of £134,520 on 2021/22 audited financial statement was omitted from the 2022/23 draft accounts. - Total remuneration excluding pension contributions for 2022/23 should be £1,660,766. Management confirmed this will be adjusted. 	✓
Note 27: Officers' remuneration	- Discrepancy noted between 2021/22 audited financial statements and 2022/23 comparatives on total non-school numbers.	✓
Note 28: Exit packages	Outdated note that reflects 2021/22 figures and comparatives for 2022/23 disclosures.	✓
Note 29: External audit costs	Final adjustment to be amended upon completion of the audit.	✓
Note 30: Dedicated Schools Grant	Note updated to reflect the opening and closing DSG reserve and to agree with note 23 (Unusable reserves) <ul style="list-style-type: none"> - DSG Unusable Reserve at 1 April 2021 and 31 March 2023 corrected to £62,635k; - Addition to DSG Unusable reserve during 2022/23 amended to nil; - Net DSG deficit at 31 March 2023 is £61,337. 	✓

D. Audit Adjustments

Disclosure/issue/Omission	Auditor recommendations (amounts in £'000)	Adjusted?
Note 31: Grants and contributions	<p>- Total General Grant and Contributions adjusted from £232,181 to £198,429 in relation to presentational errors with total of £33,752. Majority of these relates to Homes for Ukraine grant that the Council received during the year that should have been disclosed under 'Other Revenue Grants' (services) in Note 31 rather than 'Other Revenue Grants' (general grants).</p> <p>- Total Grants credited to services should be adjusted from £787,305 (on the draft accounts, the total was incorrectly disclosed as £763,305) to £805,530 representing the reduction on DSG grant by £15,527 and the effect of above error.</p> <p>Both adjustments above, although already agreed with management, have not been reflected on the revised draft accounts.</p>	✓
Note 34: Leases	<p>The note was amended to correct disclosure of the following:</p> <p>- Future minimum lease payments for operating lease liabilities for operating lease where the Council is the lessee from £18,013 to £16,356</p> <p>- Future minimum lease payments for operating lease liabilities for operating lease where the Council is the lessor from £77,796 to £72,910</p>	✓
Note 35: Other short-term and long-term liabilities	Note amended to reflect increase in pension liabilities of £200,331.	✓
Note 36: Private finance initiatives and similar contracts	The movement on PFI liabilities for Waste model was amended to mirror the amount per PFI model. Payments remaining to be made under the PFI contract at 31 March 2023 (excluding any estimation of inflation and availability/performance deductions) for Waste model was also amended.	✓
Note 40: Cash flow statement- Operating Activities	<p>The surplus or deficit on the provision of services has been adjusted for the following non-cash movements amended from £292,653 to £289,191 following changes movements on financial statement line items such as creditors, debtors, pension liability and other non-cash items charged to net surplus or deficit on the provision of services.</p> <p>The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities was also revised from (£145,640) to (£161,084). This is linked to adjustment on Note 41 below.</p>	✓
Note 41: Cash flow statement – purchase of property, plant & equipment	The "Other receipts from investing activities" was disclosed as £85,145k and therefore doesn't agree with Note 12: Capital Grants and Contributions of £100,589k.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail (amounts in £'000)	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
The following assets are no longer in use. Although have nil effect, we propose PPE note to be adjusted to remove assets that have been fully depreciated and are no longer in use so gross cost and accumulated depreciation are not inflated. And in doing so, the Council should ensure this is undertaken in accordance with the approved disposal policy. The following is proposed to be adjusted.	-	Dr. Accumulated depreciation 19,322 Cr. Vehicles 3,311 Cr. Plant and Equipment 16,011	-	-	Not material.
Overall impact	-	-	-	-	-

E. Fees and non-audit services

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

Audit fees	Final fee £ (2021/22)	Estimated fee £ (2022/23)*
Council Group Audit	300,729	279,905
Total audit fees (excluding VAT)	300,729	279,905

Refer to page 20 of this report which sets out key issues discussed with management.

* Fees subject to PSAA agreement

Non-audit fees for other services	Final fee £ (2021/22)	Final fee £ (2022/23)
Audit Related Services		
• Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	7,500	10,000
Non-audit service	Nil	Nil
Total non-audit fees (excluding VAT)	7,500	10,000

None of the services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard [ES 1.69])

Reconciliation of audit fees**	Council (Note 29) £000	Grant fee (Note 29) £000	Group audit fees (Note 7) £000
Fees per draft accounts	218	10	303
Reconciling items:			
• Subsidiaries auditor fees UYH HY	-	-	(51)
• Subsidiaries auditor fees Kreston Reeves	-	-	(27)
• Grant audit fee	-	-	(10)
Audit Findings Report	218	10	215

**Management to amend the note upon finalisation of final proposed fee.



E. Fees and non-audit services

Analysis of audit fees	Final Fee £ (2021/22)	Estimated fee £ (2022/23)
New scale fee	115,415	132,040
Group including additional testing	23,691	12,500
Reduced materiality	5,260	5,260
PPE revaluation recharge of auditor expert fees	7,015	11,740
Additional work on valuation (PPE and Investment Properties)	16,948	6,315
Value for Money audit – new NAO requirements	20,000	20,000
ISA 540 and Raising the bar/regulatory factors	14,125	13,500
ISA 315	-	7,025
Infrastructure	6,000	4,250
Quality review – response to FRC (Quality Partner)	-	1,500
Triennial valuation work (2021/22: Pension liability IAS19 revision and Enhanced audit procedures for Pensions)	10,500	6,000
Quality or preparation issues	25,990	22,025
Additional testing including checking errors council tax, business rates, related unusable reserves and journals testing	15,785	14,000
Review of multiple sets of accounts for audit amendments and disclosures – additional testing and review	21,500	14,750
Additional work prior period on Group MIRS, Cash Flow and Group Cash Flow, leave accrual, WGA	18,500	9,000
Total proposed audit fees 2022/23 (excluding VAT)	300,729	279,905

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none">the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit proceduresthe identification and extent of work effort needed for indirect and direct controls in the system of internal controlthe controls for which design and implementation needs to be assess and how that impacts samplingthe considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none">increased emphasis on the exercise of professional judgement and professional scepticisman equal focus on both corroborative and contradictory information obtained and used in generating audit evidenceincreased guidance on management and auditor biasadditional focus on the authenticity of information used as audit evidencea focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none">Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none">clarification of the requirements relating to understanding fraud risk factorsadditional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.



G. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Click here and enter office address]

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Grant Thornton UK LLP

[Enter Client Name]

Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Surrey County Council and its wholly owned Local Authority Trading Companies, Hendeca Group Ltd (formerly SE Business Services Ltd.), Surrey Choices Ltd., Halsey Garton Property Ltd. and Halsey Garton Residential Ltd. for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of Property Plant and Equipment and Investment Properties and Pension liabilities. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the group and the Council has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

G. Management Letter of Representation

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

- a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or



G. Management Letter of Representation

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

H. 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 2023, 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, 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, the 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 2022/23.

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 2023 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 2022/23; 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 group and the Authority'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.

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 2022/23 that the Authority's 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 2022) 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.

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.

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 and 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.



H. Audit opinion

Our responsibilities and the responsibilities of the Deputy Chief Executive and Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive and Executive Director of Resources is responsible for the other information. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this 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, 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
- 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 and the Deputy Chief Executive and Executive Director of Resources

As explained more fully in the Statement of Responsibilities [set out on page x], 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 2022/23, 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

H. Audit opinion

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 they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, 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 framework 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.

We enquired of management 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 management, 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 management's 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 investment properties the completeness and accuracy of year end accruals and payables.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, 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, investment properties 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

H. Audit opinion

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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, 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 year end accruals and payables. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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

- 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 in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
 - o the provisions of the applicable legislation
 - o guidance issued by CIPFA/LASAAC and SOLACE
 - o 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.

For components at which audit procedures were performed, we requested component auditors 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.

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.

[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 2023.

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.

[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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'.

H. Audit opinion

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 document 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 2023 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 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

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 44 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.

Signature:

Paul Dossett, Key Audit Partner

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

London

Date:



