

Surrey County Council Draft Audit results report

Year ended 31 March 2024

14 January 2025



Building a Better
working world



Audit and Governance Committee
Woodhatch Place,
11 Cockshot Hill,
Woodhatch,
Reigate,
RH2 8EF

14 January 2025

Dear Audit and Governance Committee Members

2023/24 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee. We will update the Audit and Governance Committee at its meeting scheduled for 22 January 2025 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2023/24 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Surrey County Council (the Council's) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

Although we have been able to fully complete our planned audit procedures, it remains important to consider the wider impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

This report is intended solely for the information and use of the Audit and Governance Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 22 January 2025.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Janet Dawson', is displayed within a light grey rectangular box.

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Surrey County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of Surrey County Council those matters we are required to state to them in this 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 Audit and Governance Committee and management of Surrey County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 5 June 2024 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality: We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £44 million (Audit Planning Report – £43 million). This results in updated performance materiality, at 50% of overall materiality, of £22.3 million, and an updated threshold for reporting misstatements of £2.2 million.

Status of the audit

Our audit work in respect of the Council and Group opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Clearance of final queries on transaction level testing
- ▶ Clearance of final queries on property, plant & equipment and investment property valuations
- ▶ Following the receipt of an updated valuation for the Eco Park, our specialists will review the valuation as agreed with the Council to enable us to conclude on the Waste PFI disclosed within the financial statements.
- ▶ Clearance of review process by Partner and Engagement Quality Reviewer
- ▶ Receipt of final version of accounts, included updated narrative report and going concern notes

We will provide an update to the Committee on 22 January 2025.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Annual Report and Accounts which could influence our final audit opinion. Due to the nature of the queries outstanding, we do not anticipate making further material adjustments to the financial statements. We expect to issue an unmodified audit opinion by the 2023/24 backstop date of 28 February 2025.



Executive Summary (cont'd)

Value for Money

In our Audit Planning Report dated 8 May 2024, we reported that we had not completed our value for money (VFM) risk assessment. We reported to the 20 November 2024 Audit and Governance Committee we had identified no risks of significant weaknesses in arrangements. Having updated and completed the planned procedures in these areas we did not identify a significant weakness. See Section 03 of the report for further details.

Audit differences

Audit differences identified during the course of the audit are detailed in Section 05 Audit Differences.

Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are yet to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. We will update the Audit and Governance Committee once this is complete following the completion of the audit.



Executive Summary (cont'd)

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial report of Surrey County Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the 'Areas of Audit Focus' section of this report.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

Control observations

During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. We have set out our observations in Section 06 Assessment of Control Environment of this report.

Independence

Please refer to Section 08 for our update on Independence.



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02 Areas of Audit Focus

Our response to significant risks

We have set out our response to the significant risks (including fraud risks denoted by*) identified for the current year audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

Our response to the key areas of challenge and professional judgement

We have:

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud
- ▶ Discussed with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determined an appropriate strategy to address those identified risks of fraud
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Undertaken procedures to identify significant unusual transactions
- ▶ Considered whether management bias was present in the key accounting estimates and judgments in the financial statements

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required. Please see conclusions to this risk on the next slide.

What are our conclusions?

- ▶ We have not identified any matters to report.

Our response to significant risks

We have set out our response to the significant risks (including fraud risks denoted by*) identified for the current year audit.

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- ▶ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) / Investment Property (IP) additions and/or REFCUS in the financial statements.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What are our conclusions?

- ▶ We have not identified any matters to report.

What have we done?

We have:

- ▶ Tested Property, Plant and Equipment (PPE) / Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assessed whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Considered whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Tested REFCUS, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.
- ▶ Identified and understood the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year.

Completeness of year end payables accruals below £25k *de minimus*

Financial statement impact

The aggregate impact of the increased payable accruals threshold may lead to material misstatements understating expenditure and payable accruals in year.

What is the risk?

The Council has changed its accounting policy and increased its payable accrual *de minimus* threshold from £1k to £25k in 2023/24.

There is a risk that transactions below the *de minimus* threshold not accrued for will lead to a material understatement of expenditure and payable accruals.

What have we done?

We have:

- ▶ Reviewed management’s assessment on the suitability of the £25k *de minimus* threshold, including the robustness of their assessment of likely magnitude of unaccrued expenditure in relation to total expenditure in year;
- ▶ Tested expenditure items below £25k to a lower testing threshold to determine impact of the *de minimus* threshold on payables completeness.
- ▶ Performed analytical review on expenditure to ensure there are no unusual year on year fluctuations that may indicate misstatements.

What are our conclusions?

- ▶ We have not identified any matters to report.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit.

Land and building valuation – PPE and IP

What is the risk?

The fair value of land and buildings in Property, Plant and Equipment (PPE) and investment properties (IP) represents a significant balance in the Council's accounts and is subject to valuation changes. PPE are also subject to impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What have we done?

We have:

- ▶ Considered the competence, capability and objectivity of the Council's valuers.
- ▶ Considered the scope of valuers' work.
- ▶ Ensured property has been revalued with sufficient frequency not to be materially misstated, as required by the Code.
- ▶ Considered if there are any specific changes to assets that should have been communicated to the valuer(s).
- ▶ Sample tested key inputs used by the valuer(s) when producing valuations.
- ▶ Considered the results of the valuers' work.
- ▶ Instructed our own Property valuation team (EY Real Estates) to review a sample of DRC, EUV and FV valuations performed by the Council's Valuer.
- ▶ Tested a sample of assets revalued in year to:
 - ▶ Challenging the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary);
 - ▶ Testing journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; and
 - ▶ Reviewing assets that are not subject to valuation in 2023/24 to confirm the remaining asset base is not materially misstated.

Financial statement impact

If land and buildings or investment property are incorrectly valued this could have the impact of misstating the Council's balance sheet.

We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting.

The Council's IP is subject to annual revaluation, while its operational PPE and surplus assets are valued on a rolling programme over 5 years.

The valuation basis is different depending on the type of property being revalued, with assets carried at Depreciated Replacement Cost, Existing Use Value or Fair Value. Each valuation basis is reliant on different inputs, estimation processes and assumptions.

Our response to significant risks

Land and building valuation – PPE and IP

Continued.

What are our conclusions?

We are concluding our work on this area and anticipate being able to update the Committee on 22 January 2025 on the conclusions of this work.

Higher inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report to those charged with governance.

What is the risk/area of focus, and the key judgements and estimates?

Pension Liability Valuation (inherent risk)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) and Firefighter Pension Scheme (FFPS) administered by the Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024 this totalled £475.4m (£28.6m LGPS and £446.8m FFPS).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our response: Key areas of challenge and professional judgement

We have:

- Liaised with the auditors of Surrey Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council for LGPS.
- Assessed the work of the pension fund actuary, which is Hymans Robertson for both LGPS and FFPS, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team
- Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- Reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 for both the LGPS and FFPS.

Additionally, we have:

- Considered outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We have used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

What are our conclusions?

We have received our assurance letter from the Pension Fund auditor. They have identified a difference of £14.991m in the value of Border to Coast investment reported in the financial statements.

Surrey Pension Fund are not proposing to adjust their financial statements for the difference. Surrey County Council's share of this difference is £6.745m. This will be recorded as an unadjusted difference for the Council which we would not anticipate the Council making an amendment for. This will be included within our Letter of Representation.

We have no further matters to report.

Higher inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

Our response: Key areas of challenge and professional judgement

What are our conclusions?

Private Finance Initiative (inherent risk)

There are three schemes to be accounted for as Private Finance Initiative (PFI) arrangements. These include a waste scheme, a care home scheme, and a street lighting scheme. The total liabilities relating to these schemes was £67m as at 31 March 2024.

As these PFI transactions are significant, complex, and involve a degree of subjectivity in the measurement of financial information, we have categorised them to have a higher inherent audit risk.

We will:

- Review the PFI models and assumptions considered within. We will involve our specialists to review the PFI models and reasonableness of the assumptions of these models.
- Compare the PFI models to previous years to identify any change(s);
- Review and test the outputs produced by the PFI models;
- Review the PFI models to assess whether they are consistent with International Accountancy Standard IFRIC12.

Waste

Following the receipt of your report for the Eco Park valuation, our specialists are reviewing the updated valuation and the impact on the Waste PFI which we will provide an update to the Audit and Governance Committee on 22 January 2025.

The Council re-negotiated the contract for the waste PFI in September 2023, amendments have been made to the draft accounts to accurately reflect the updated model.

Street Lighting

We are concluding our work on the Street Lighting PFI following some difficulties in obtaining a current PFI model from the client.

We recommend the Council updates the model in line with current Service, Capital and Interest costs to ensure the model and figures within the financial statements are aligned and up to date.

Care Home

We are concluding our work on the Care Home PFI and do not have any matters to report.

Higher inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

Existence of plant, property and equipment (inherent risk)

The predecessor auditor identified material misstatements where fully depreciated assets that were no longer in use have not been removed from the fixed asset register, leading to an overstatement of the gross balance and accumulated depreciation of PPE. A control recommendation was raised to identify and dispose of assets that were no longer in use. Therefore, we have considered existence of PPE as a higher inherent risk.

Our response: Key areas of challenge and professional judgement

We have:

- Assessed management's processes to identify and dispose of assets that are no longer in use through discussion with management and individual budget holders;
- Tested for PPE Existence using a lower testing threshold;
- Physically inspected PPE to ascertain that PPE remains in use.

What are our conclusions?

We are concluding our work in this area.

We have identified £49m of bulked capital expenditure which we are working with the Council to identify the existence.

We recommend going forwards the Council attributes this expenditure directly to assets and have agreed that the 23/24 expenditure will be allocated during 24/25.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

Our response: Key areas of challenge and professional judgement

What are our conclusions?

Data migration onto new Enterprise Resource Planning system (other area of audit focus)

The Council has migrated to a new Enterprise Resource Planning (ERP) system, from SAP to Unit 4, in Period 2 of 23/24, impacting all areas of the financial statements. We have therefore considered the data migration process an area of audit focus.

We will:

- Inquire management of the controls to ensure the data migration process is complete and accurate. We will engage our IT specialists to review the data migration process;
- Review and reperform reconciliations between the old and new systems for all areas impacted by the data migration.

We have reviewed the Council's assessment of the data migration.

The Council identified some issues with data migration, specifically in relation to mapping between old and new systems. We redesigned elements of our testing to address the risks of errors in classification of transactions within the financial statements.

The Council performed a full data extraction for 2020/21, 2021/22, 2022/23, and 2023/24 up to 6th June 2023 for migration. Files were extracted from SAP tables, converted to Unit4, and then posted into one of the test environments for reconciliation.

We have undertaken testing and review of opening balances and not identified any issues.

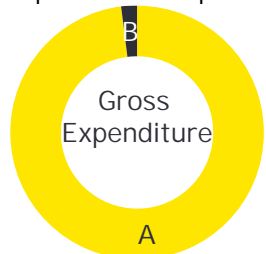
As detailed within Section 06 Assessment of Control Environment, we have identified a number of areas impacted by the system migration and have made recommendations for the Council to implement.

The group audit

Coverage of Gross Expenditure/ Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's gross expenditure, loss before tax, and total assets.

*% above represent % coverage by full scope (A) and specific scope (B) components on Gross Expenditure, loss before tax, and total assets of the Group only, before intergroup elimination amounts. The remainder 1-2% represents components that we will perform other procedures for.



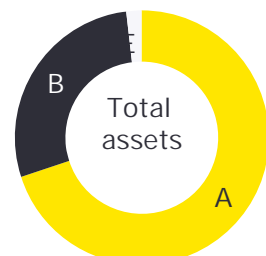
99%*

of the group's forecast gross expenditure will be covered by full and specific scope audits, with the remainder covered by analytical review.



98%*

of the group's forecast loss before tax will be covered by full and specific scope audits, with the remainder covered by analytical review.



99%*

of the group's forecast total assets will be covered by full and specific scope audits, with the remainder covered by analytical review.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of each component team. Our visits incorporate a combination of site visits, review of the component team's audit work and meeting with business unit management.

There is one full scope audit, which is the parent entity Surrey County Council. During 2024, the group audit team plans to visit Surrey County Council offices at Woodhatch Place for the audit of the parent entity.

There is one specific scope component, Halsey Garton Property Ltd. Specific scope areas include turnover, Net (deficit)/gain on revaluation of investment properties, interest payable and similar charges, investment properties, and borrowings for Halsey Garton Property Ltd.

Given the judgemental nature of investment property valuations, and that the component auditor UHY Hacker Young does not have an in-house valuation specialist, EY will perform the audit work for investment property valuations, and net (deficit)/gain on revaluation of investment properties, for Halsey Garton Property Ltd.

We are waiting for the final consolidated position from the subsidiaries following the sign off of their 2023/24 accounts.



03 Value for Money

Value for Money

The Authority's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

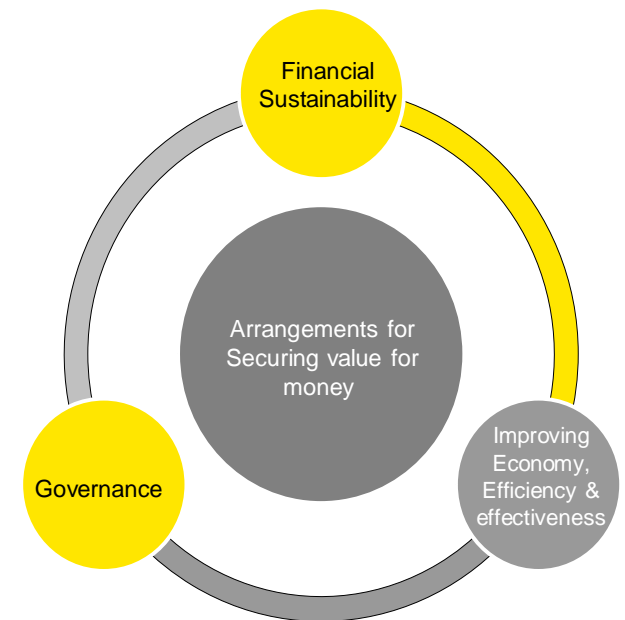
We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council arrangements against three reporting criteria:

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

We have completed our detailed VFM work and identified no risks of significant weaknesses in arrangements. We reported our findings and Draft VFM Commentary to the 20 November Audit and Governance Committee. We will report our Auditor's Annual Report to the Audit and Governance Committee following the completion of the Audit.





04 Audit Report

Audit Report

Draft audit report

Our opinion on the financial statements

As set out in the Executive Summary of this report, we expect to issue an unmodified opinion and will share this with management in due course.

► To follow



05

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £22.3 million which have been corrected by management that were identified during the course of our audit:

Mapping Issues

Working with the Council, we have identified a number of mapping issues, including;

- ▶ We have identified an overstatement of cash of £29.9m, due to a mapping issue that should be categorised as Debtors.
- ▶ £84.6m incorrectly classified as income, this has now been moved to expenditure.
- ▶ £59.4m incorrectly classified as other expenditure, transferred to employee benefits expense

EY and Surrey County Council have identified the following Prior Period Adjustments:

Reserves

Surrey County Council identified that the General Fund ('GF') and Capital Receipts Reserves ('CRR') were not correctly disclosed in the 2022/23 accounts. Management posted closing manual entries to the CRR and the GF which resulted in a disclosure overstatement of the CRR by £18.746m and an understatement of the GF in the same amount. Furthermore, the Revenue Usable Reserve was not split between the Earmarked Reserves and General Fund balance in the 2022/23 statement of accounts, as required by the CIPFA standard. We have agreed with the proposed restatement.

Net Pension Interest Cost

We identified that in preparing the 2022/23 accounts, management incorrectly disclosed "interest income on plan assets" and "interest cost on defined benefit obligation" on a gross basis in its Comprehensive Income and Expenditure Statement and related disclosure notes. The CIPFA code states that an authority shall determine and disclose the net interest on the net defined benefit liability in its Comprehensive Income and Expenditure Statement, specifically under Financing and investment income and expenditure line item.

Thus, pensions interest income and expenditure was disclosed as interest of the Council resulting in an overstatement of both Gross Expenditure and Income on "Financing & Investment (Income) & Expenditure (note 11)" in the CIES for the year ended 31 March 2023 by £66.067m. We have agreed the restatement with the finance team.

Investment in subsidiaries – Impairment

Following our review of investments in subsidiaries, we noted the Council had not undertaken an impairment review on the valuation of the assets and return on their investment. The Council has obtained a specialist review which has identified impairment to the last three years of 21/22: £37,845k ; 22/23: £11,410k and 23/24: £16,882k.

Leases

Amendments to the lease disclosure notes have been required to ensure compliance with the CIPFA Code requirements.

Audit Differences

Summary of unadjusted differences

We have received our assurance letter from the Pension Fund auditor. They have identified a difference of £14.991m in the value of Border to Coast investment reported in the financial statements.

Surrey Pension Fund are not proposing to adjust their financial statements for the difference. Surrey County Council's share of this difference is £6.745m. This will be recorded as an unadjusted difference for the Council which we would not anticipate the Council making an amendment for. This will be included within our Letter of Representation.



06

Assessment of Control Environment

Assessment of Control Environment



Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you deficiencies in internal control including group-wide or at components.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment (cont'd)

2023/24 Recommendations

Description	Recommendation
<p>Street Lighting PFI Model</p> <p>We have identified the Street Lighting PFI model inputs cannot be supported by the Council.</p>	<p>Whilst we have been able to gain sufficient assurance that the overall position shown in the financial statements is not materially incorrect, we recommend the Council undertakes a review of this arrangement and contract and ensures there is a maintained model which is supportable by the current negotiated contract position.</p>
<p>Bulk Capitalised Expenditure</p> <p>We have identified £49m of capital expenditure showing in the fixed asset register which is bulk classified on one line of the fixed asset register rather than being allocated per asset. We have tested balances from this and can confirm it is capital in nature. However, to ensure the correct depreciation is being charged against these balances, they should be allocated by asset.</p>	<p>We recommend the Council undertake a review of this expenditure and allocates based on asset where possible for 23/24 and prior, and for 24/25 there are no consolidated capital expenditure balances added into the Fixed Asset Register.</p>
<p>Mapping Issues</p> <p>Following the data migration from SAP to UNIT 4, we have identified a number of mapping issues during the course of the audit where a balance has been incorrectly mapped into the statement of accounts. This has resulted in a number of re-runs of testing and work by the Council and EY to resolve.</p> <p>The Council has made a number of manual adjustments outside of the General Ledger - this becomes difficult to trace to ensure they are appropriately accounted for and tested.</p>	<p>We recommend the Council undertakes a detailed review of the coding structure within the ledger to simplify and correctly map account codes to balances within the financial statements. Ensure manual adjustments are accurately posted into the General Ledger.</p>
<p>Journals Authorisation</p> <p>Similar to the recommendation of the previous auditor, we note that journals 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>We recommend with Unit 4 in place, the Council reviews system controls to ensure safeguards and mitigating controls are sufficient for the Council in journal posting to minimise the risk of fraud and error.</p>
<p>Group Transactions</p> <p>We note that management rely on information from the audited subsidiaries to identify the intercompany balances to be eliminated during group consolidation process. As identified by the previous auditor, the Council does not maintain separate monitoring of intercompany transactions or balances and merely rely on audited financial statements of subsidiaries.</p>	<p>We recommend the Council carry out their own assessment of subsidiary transactions to ensure the accuracy of intercompany balances eliminated from the group account consolidation.</p>
<p>Investment in subsidiaries – Impairment</p> <p>Following our review of investments in subsidiaries, we noted the Council had not undertaken an impairment review on the valuation of the assets and return on their investment. The Council has obtained a specialist review which has identified impairment to the last three years of 21/22: £37,845k ; 22/23: £11,410k and 23/24: £16,882k.</p>	<p>We recommend the Council continues to engage a specialist to assess impairment required on investments with subsidiaries.</p>

Assessment of Control Environment (cont'd)

2023/24 Recommendations

Description	Recommendation
<p>Fixed Asset Register and Assets Held for Sale Valuation</p> <p>We noted a number of issues in reconciling the Fixed Asset Register to the Accounts with a number of manual adjustments.</p> <p>We noted the costs associated with implementing Unit 4 has been incorrectly classified as Vehicles, Plant and Equipment rather than Intangibles.</p> <p>We also noted Assets Held for Sale were not valued at the lower or carrying amount and fair value less cost to sell.</p>	<p>We recommend the Council undertakes a review of the reconciliation process from the Fixed Asset Register to the Accounts, including the mapping of all key balances.</p>
<p>5 year rolling programme</p> <p>We have identified £29m of Land and Building Assets that have not been revalued within the Council's 5 year rolling programme.</p>	<p>We recommend the Council undertakes a review of its valuation programme to ensure all assets are included for valuation at least every 5 years,</p>
<p>Indexation for Assets not valued in the year</p> <p>The Council had not prepared a sufficiently robust review of assets not valued in the year to assess the impact of land and building indices for the year. This allows the Council to ensure the Property, Plant & Equipment balance is materially correct for those assets not valued in year.</p>	<p>We recommend the Council undertakes an annual indexation exercise across all assets not valued in the year to ensure the balance within the financial statements remains materially correct, and pays particular attention to those assets valued 3-5 years previously where more significant valuation movements may have occurred.</p>
<p>Reconciliations and quality of working papers</p> <p>We noted that the quality of working papers, listings and audit trail evidence provided to the audit team was not sufficient in a number of areas of the audit. Some examples include: incomplete listings that do not reconcile with the trial balance, incomplete working papers with missing audit trail, supporting evidence which does not agree with the sampled amount.</p>	<p>Having implemented Unit 4 during 2023-24, we recommend the Council undertakes a review of the working papers and listings provided to support the figures within the financial statements.</p> <p>We would be happy to provide a further session to the finance team to discuss and demonstrate what good audit evidence looks like and how we can work together during 2024/25 to prevent duplication of effort on both sides.</p>
<p>Earmarked Reserves</p> <p>We have noted that within the revenue grants unapplied line within the earmarked reserves note, all annual income and expenditure is included within this note as transfers in and out. This is out of line with standard practice, where you would expect the net position at the end of the financial year to be included within this note.</p>	<p>We recommend the Council reviews its process for capturing transfers in and out within the earmarked reserves note.</p>

Assessment of Control Environment (cont'd)

2023/24 Recommendations

Description	Recommendation
<p>Exit Packages</p> <p>We identified an over paid employee of £21k. This is due to HR not having the final position and sharing this within the Council.</p>	<p>We recommend the Council reviews its internal processes to ensure all relevant parties are supplied with the information to ensure correct payments and transactions are made.</p>
<p>School Bank Accounts</p> <p>We identified delays in obtaining the list of school bank accounts and bank reconciliations.</p> <p>We had challenges in obtaining bank confirmation authorisations from schools, particularly those that were converted to academies after the year-end.</p>	<p>We acknowledge this is a difficult process to manage given the number of entities involved. We recommend the Council liaises directly with the schools in our sample to aid the smooth running of the confirmation process.</p>
<p>Payroll</p> <p>We undertook a substantive approach to payroll testing in 2023-24 as we were unable to verify the FTE (full time equivalent) numbers of employees within the Council. We were therefore unable to undertake substantive analytical review procedures on the balance.</p> <p>We have encountered some delays obtaining information from the payroll/HR team to support our audit procedures in 2023-24.</p>	<p>We recommend the Council's finance team works closely with the payroll and HR departments to ensure all information requested for the audit process is complete, verifiable and provided in a timely manner.</p>



07 Other Reporting Issues

Other Reporting Issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Surrey County Council Statement of Accounts 2023/24 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Surrey County Council Statement of Accounts 2023/24 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete. In discussion with the Council, this will be completed following the completion of the audit.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State,

We did not identify any issues which required us to issue a report in the public interest/issue statutory recommendations under Schedule 7.

Other Reporting Issues (cont'd)

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no other matters to report.

Other Reporting Issues (cont'd)

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

We have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24 as this is an initial audit.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
 - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
 - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We have concluded our work in this area, and it is currently going through our internal review process. We have no matters to report to the Committee.



08 Independence

Independence - Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

Relationships

There are no relationships from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

There are no services provided by EY from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence - Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statements opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. Details of our proposed scale fee variations for the audit of the Council are set out in the fee analysis on this page.

	2023-24
	Current Year
	£
Total Fee - Scale Fee (1)	384,130
Valuation procedures to gain assurance over assets held by Halsey Garton Property Ltd. (2)	12,000
New system implementation (3)	20,000
ISA315 Procedures - currently not included in scale fee (4)	13,000
Prior Period Adjustments (5)	15,000
Quality and Preparation Issues (6)	12,000
Total audit	456,130

All fees exclude VAT

(1) Note 1 - PSAA Ltd have set the Audit Scale fee for 2023-24, this can be viewed on the PSAA website: [2023/24 auditor appointments and audit fee scale - PSAA](#)

(2) As set out in the Audit Planning Report, given the judgemental nature of investment property valuations, and that the component auditor UHY Hacker Young does not have an in-house valuation specialist, EY will perform the audit work for investment property valuations, and net (deficit)/gain on revaluation of investment properties, for Halsey Garton Property Ltd.

(3) The Council migrated from SAP to Unit 4 during the 2023/24 year. We raised the data migration process as an area of audit focus in our audit plan. Additional work is required to walkthrough the processes and controls for both systems and to confirm the completeness and accuracy of the data migration process

(4) ISA315 (Revised July 2020) Identifying and Assessing the Risks of Material Misstatement was applicable to Surrey County Council in 2023/24 as an initial audit.

(5) As set out in Section 05 of this report, we have identified prior period adjustments which require additional work and consultation with our professional practice department.

(6) Due to data mapping issues, and issues identified during the course of the audit, we have spent additional audit effort selecting further samples, listings not matching figures in the statement of accounts and requesting additional evidence to support transactions.



09 Appendices

Appendix A - Required communications with the Audit Committee

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report Audit and Governance Committee 5 June 2024
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> The planned scope and timing of the audit Any limitations on the planned work to be undertaken The planned use of internal audit The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit planning report Audit and Governance Committee 5 June 2024
Significant findings from the audit	<ul style="list-style-type: none"> Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process Findings and issues regarding the opening balance on initial audits 	<p>Audit planning report Audit and Governance Committee 5 June 2024</p> <p>Audit Results Report Audit and Governance Committee 22 January 2025</p>

Appendix A - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	<p>Audit Results Report Audit and Governance Committee 22 January 2025</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>Audit Results Report Audit and Governance Committee 22 January 2025</p>
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit Results Report Audit and Governance Committee 22 January 2025</p>

Appendix A - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report Audit and Governance Committee 22 January 2025
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report Audit and Governance Committee 5 June 2024 Audit Results Report Audit and Governance Committee 22 January 2025
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit Results Report Audit and Governance Committee 22 January 2025
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit Results Report Audit and Governance Committee 22 January 2025

Appendix A - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	<p>Audit Results Report Audit and Governance Committee 22 January 2025</p>
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	<p>Audit planning report Audit and Governance Committee 5 June 2024</p> <p>Audit Results Report Audit and Governance Committee 22 January 2025</p>
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	<p>Audit Results Report Audit and Governance Committee 22 January 2025</p>

Appendix B – Management representation letter

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the consolidated and parent Authority financial statements of Surrey County Council ("the Group and Council") for the year ended 31 March 2024. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Authority financial statements give a true and fair view of (or 'present fairly, in all material respects,') the Group and Authority financial position of Surrey County Council as of 31 March 2024 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2034/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our consolidated and parent Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the parent Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the consolidated and parent Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and parent Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.

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4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) for the Group and Council that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent Authority financial statements taken as a whole. We have not corrected these differences because [specify reasons for not correcting misstatement].

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and parent Council financial statements may be materially misstated as a result of fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud, that may have affected the Group or Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated and parent Authority financial statements
- Related to laws or regulations that have an indirect effect on amounts and disclosures in the consolidated and parent Authority financial statements, but compliance with which may be fundamental to the operations of the Group and Authority's business, its ability to continue in business, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent Council financial statements

3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the [period] to the most recent meeting on the following date: [list date].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the consolidated and parent Council financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 1 April 2024 through to the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the consolidated and parent Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 39 to the consolidated and parent Council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note [X] to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and Authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 6 to the consolidated and parent Council financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent Authority, subsidiary undertakings and associated undertakings.
3. It is the Council's understanding that the assets of the subsidiaries would revert to the Council's ownership if the subsidiaries were to be wound up.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises [describe the other information applicable to the entity].
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and parent financial statements.

Appendix B – Management representation letter

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2. The key assumptions used in preparing the consolidated and parent financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2034/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), aligned with the statements we have made in the other information or other public communications made by us.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment valuations, including PFI assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent Authority financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

Valuation of Property, Plant and Equipment Estimate

1. We confirm that the significant judgments made in making the Property, Plant and Equipment Valuation have taken into account all relevant information of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the Property, Plant and Equipment Valuation

3. We confirm that the significant assumptions used in making the Property, Plant and Equipment Valuation appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and parent Council financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2034/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimate.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent Council financial statements.

Valuation of IAS 19 Pension Liability Estimate

1. We confirm that the significant judgments made in making the Valuation of IAS 19 Pension Liability have taken into account all relevant information of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the Valuation of IAS 19 Pension Liability.

3. We confirm that the significant assumptions used in making the Valuation of IAS 19 Pension Liability appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

Appendix B – Management representation letter

Management representation letter

Management Rep Letter

4. We confirm that the disclosures made in the consolidated and parent Council financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2034/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimate.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent Council financial statements.

Yours faithfully,

Director of Finance & Corporate Services, S151)

Chairman of the Audit and Governance Committee

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UKC-024050 (UK) 07/22. Creative UK.

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