

Surrey County Council and Surrey County Council Pension Fund Audit Plan

Year ending 31 March 2021

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Contents



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Section

Key matters	3
Introduction and headlines	6
Group audit scope and risk assessment	8
Significant risks identified	9
Other risks identified	13
Accounting estimates and related disclosures	15
Other matters	18
Materiality	19
Value for Money Arrangements	20
Risks of significant VFM weaknesses	21
Audit logistics and team	22
Audit fees	23
Independence and non-audit services	26
Appendix 1: Revised Auditor Standards and application guidance	27

Page

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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Key matters

Factors

Finances

Over the last two financial years the Council has developed and implemented a transformation plan, which has delivered improvements in the capacity and capabilities of the Finance Team as well as significant savings across the Council. In both 2018/19 and 2019/20 the Council delivered underspends against budget, which have enabled it to increase the available General Fund Balance and earmarked reserves.

The Council included £82m of efficiency proposals in the annual budget for 2019/20 which was approved by Council in February 2019. We noted that £72m (88%) was reported as achieved at year-end. The £10m of non-delivered savings was made up of a combination of project delays, decisions taken not to pursue savings, specific savings not identified, and savings shortfalls against original targets. The shortfall was offset by alternative one-off measures in year, with the recurrent impact rolled forward into the updated Medium Term Financial Strategy (MTFS). Given the overall scale of savings to be delivered, this reflects effective management and delivery of savings plans.

On 4 February 2020, a balanced budget of £968.4m for 2020/21 was approved by members. To achieve this balanced budget, £38m of savings and efficiencies were identified. Looking over the following 4 years, a cumulative funding gap of £162.3m was projected by 2024/25. To close this gap, additional efficiencies of c.£40m per year would need to be identified and delivered.

The pandemic has resulted in additional spending pressures estimated together with a hit to the Council's income streams estimated at £52 million as at end of quarter 3. In the short term the government is providing financial support to meet some of these pressures, including the use of reserves and contingencies to reduce the overall financial impact in the current year. The current known allocation from central government to the Council remains at £2 million.

The 2020-21 forecast position as at Quarter 3 on service budgets is a deficit of £0.2 million following receipt of expected Covid-19 funding. The impact of the pandemic continues to be the key driver for the overspend within departments, including unanticipated costs for new service provision in dealing with the health crisis and the impact on income generation as a result of the national lockdown measures and the economic impact.

The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022. The Council has set a balanced budget for 2021/22 with an anticipated MTFS gap of £178 million to 2025/26. The Council has closed the budget gap for 2021-22 and is proposing a balanced budget which assume budget growth of £35.2 million across directorates together with a Council Tax increase of 1.99 per cent plus an additional 0.5 per cent increase in respect of the adult social care precept.

From 2021/22 and over the following four years, the Council's approved MTFS approved capital programme totalled £1905.5 million to invest in County's roads, infrastructure, the environment and buildings. This includes £879.2 million of Capital Pipelines proposals subject to further scrutiny and challenge. The proposed funding for the capital programme over the same period is largely by borrowing of £1,145 million and grants and contributions of £651.3 million.

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Our response

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations.
- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice

Key matters (continued)

Factors

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Fund's positions. We will monitor the position for the 31 March 2021 valuations.

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has kept critical services going at the same time supporting the Covid 19 national effort. The Council has delivered food parcels, accommodated rough sleepers, boosted hardship funds, made welfare calls to vulnerable people, worked with district and borough councils distributing grants to businesses who face financial hardship. The Council has also assisted with testing programmes and vaccine administration by helping with site preparation and logistics and in communications and engagement with local communities to encourage uptake of the vaccine.

Since the start of the pandemic, over £62.4 million Covid grants has been received to help them offset the impacts of Covid-19. At the end of quarter 3, grants of £52.5 million have been made available to directorates and the balance of £9.9 million held in reserves.

The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.

Our response

- We will continue to provide you with sector updates via our Audit and Governance Committee updates.
- We will liaise with the Council's valuer and Pension Fund managers to clarify any potential material uncertainties in 2020-21.
- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.

Key matters (continued)

Factors

MTFS and Transformation

The Council continues to undergo extensive change and transformation. Work continues on developing planned programmes to achieve recurring efficiencies of £75.3 million with an estimated one-off investment of £21.1 million in 2021/22 with a potential funding gap of £4.7 million yet to be identified. Budget pressures to 2025/26 of £239.5 million with anticipated funding reductions of £52 million combined with planned efficiencies of £113.5 million has resulted in MTFS funding gap of £178 million to be identified over the next 5 years.

Pension Fund developments

The Pension Fund investments continue to recover from the pandemic shock. Pensions Administration has been based within Orbis Business Services, where the pensions Administration Team (PAT) carries out the operational day to day tasks on behalf of members and employers of the Fund and the Council. For the last two years Internal Audit have raised concerns about the level of assurance that they are able to give in relation to the operation of the PAT. As a result a significant improvement programme (the Pensions Administration Turnaround Programme) has been established and progress on its implementation is being monitored by the Local Pension Board and the Audit and Governance Committee. A pension administration "Turnaround Board" has been established to oversee the dissolution of the Orbis pension partnership, along with the reversion to sovereign authorities including a review of the fundamentals for delivering pensions administration. In November 2020 Internal Audit reported that "High Priority actions relating to the audit of Pension Fund Administration remain work in progress. Internal Audit are currently scheduled to complete a full internal audit of the PAT in Quarter 4 of 2020/21.

Our response

- We will consider your arrangements for MTFS gap and transformation as part of our audit in completing our Value for Money work
- We will review the valuation of the Pension Fund Assets as part of our audit of the Pension Fund Accounts
- We will also monitor progress of the Pensions Administration Turnaround Programme during 2020/21 and review the work carried out by Internal Audit as part of our audit of the Pension Fund Accounts, and in completing our Value for Money work

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of ('the Council') and the Surrey County Council Pension Fund (the Pension Fund) for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

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

Council

- The risk that the valuation of land and buildings in the accounts are materially misstated.
- The risk that the valuation of Investment Properties in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- The risk that the accuracy and presentation of the Private Finance Initiative (PFI) and similar contracts are materially misstated.

Pension Fund

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

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

Group

We have determined planning materiality to be £25.9m for the Group (PY£26m), which equates to approximately 1.25% of your Group prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.3m).

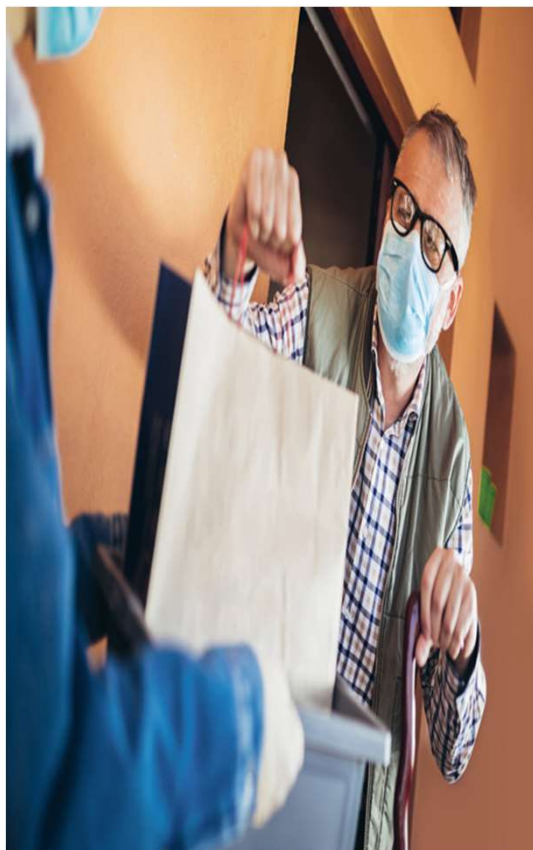
Council

We have determined planning materiality to be £25.8m for the Council (PY£25.8m), which equates to approximately 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.3m).

Pension Fund

We have determined materiality at the planning stage of our audit to be £38.5m (PY £38.5m) for the Pension Fund, which equates to approximately 1% of the 2019/20 net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.9m (PY £1.9m).

Introduction and headlines (continued)



Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for service transformation and cultural change.
- The Council's arrangements for working with its key partners to deliver services such as waste PFI more efficiently.
- The Council's arrangements for improving its Ofsted 'Inadequate rating' rating of Children's services.
- The Council's arrangements for bringing back in-house the pension administration from Orbis partnership.

Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place between July – September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £192,235 (PY: £172,477) for the Council and £35,571 (PY:£38,597) for the Pension Fund, subject to the Council and the Pension Fund delivering a good set of financial statements and working papers. These fees are also subject to agreement with PSAA under the terms of our contract with them.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Surrey County Council	Yes	Comprehensive	See page 8 onwards	Full scope audit performed by Grant Thornton UK LLP
Halsey Garton Property Limited	Yes	Component Audit	Valuation of Investment Property assets as at 31 March 2021.	Full scope UK statutory audit performed by component auditor. The nature, time and extent of our involvement in the work of component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor, audit documentation and meeting with appropriate members of management.
Surrey Choices Limited	No	Analytical only	None	Analytical review performed by Grant Thornton UK LLP.
Hendeca Group Limited	No	Analytical only	None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- None identified

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions [rebutted]	Council and Pension Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Surrey County Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk at for the Surrey County Council and Surrey County Council Pension Fund.	
Management over-ride of controls	Council and Pension Fund	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.	We will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	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 (£1.2 billion) and the sensitivity of this estimate to changes in key assumptions. The Waste PFI Provider continued to work on completing the Eco Park assets during 2020/21 and Management have monitored the position to ensure they are appropriately treated in the year end accounts. Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. 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.	We will: - Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. - Evaluate the competence, capabilities and objectivity of the valuation expert. - Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. - Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. - Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. - Assess the value of a sample of assets in relation to market rates for comparable properties.
Valuation of Investment properties	Council	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 (£133.8 million) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. 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.	We will: - Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. - Evaluate the competence, capabilities and objectivity of the valuation expert. - Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. - Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. - Test revaluations made during the year to see if they had been input correctly into the Council's records and financial statements. - Assess a sample of Investment Properties in relation to market rates for comparable properties. - Test the reasonableness of the assumptions used by the valuer in valuing Investment Properties.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.1 billion in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.	We will: • 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.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and presentation of the Private Finance Initiative (PFI) and similar contracts liabilities and associated disclosures	Council	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 on the balance sheet was £109m (including deferred income liability) as at 31 March 2020; the book value of associated assets was £196.8m including assets under construction. 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.	We will: - review your PFI models and assumptions contained therein. - compare your PFI models to previous year to identify any changes. - review and test the output produced by your PFI models to generate the financial balances within the financial statements. - review the PFI disclosures to assess whether they are consistent with International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models.
Valuation of Level 3 Investments (Annual revaluation)	Pension Fund	The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£438 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.	We will: - Evaluate management's processes for valuing Level 3 investments. - Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met. - Independently request year-end confirmations from investment managers and the custodian. - For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period. - In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. - Where available review investment manager service auditor report on design and operating effectiveness of internal controls.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Council	Non-pay expenditure on goods and services represents a significant percentage of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	We will: - Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. - Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. - Obtain and test a listing of non-pay payments made in April and May 2021 to ensure that they have been charged to the appropriate year.
Fraud in Expenditure Recognition	Council and Pension Fund	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets. Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 8 relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 8.	We will: - Obtain an understanding of the design effectiveness of controls relating to operating expenditure. - Perform testing over post year end transactions to assess completeness of expenditure recognition. - Test a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year.
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£6.1 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	We will: - Update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls. - Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. - Assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation. - Assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. - Test the consistency of disclosures with the actuarial report from the actuary. - 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.

Other risks identified (continued)

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

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures (continued)

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Valuation of investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Provision for business Rates Appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be presented at the Audit and Governance Committee as part of our Informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

Group

We have determined financial statement group materiality based on a proportion of the gross expenditure of the Group for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £25.8m (PY £26m) for the Council, which equates to approximately 1.25% of the Group's prior year gross expenditure for the year.

Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £25.8m (PY £25.8m) for the Council, which equates to approximately 1.25% of the Council's prior year gross expenditure for the year.

Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £38.5m (PY £38.5m) for the Pension Fund, which equates to approximately 1% of the Pension Fund's prior year net assets.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.3m (PY £1.3m). For the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.9m (PY £1.9m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

Council prior year gross expenditure



Materiality

£25.8m
Council financial statements materiality (PY: £25.8m)

£0.1.3m
Council misstatements reported to the Audit & Governance Committee (PY: £1.3m)

Pension Fund prior year net assets



Materiality

£38.5m
Council financial statements materiality (PY: £38.5m)

£1.9m
Council misstatements reported to the Audit & Governance Committee (PY: £1.9m)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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 three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for service transformation and cultural change.
- The Council's governance arrangements for working with its key partners to deliver services such as waste PFI more efficiently.
- The Council's arrangements for improving its Ofsted 'Inadequate rating' rating of Children's services.
- The Council's arrangements for bringing back in-house the pension administration from the Orbis partnership and transforming performance.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



Ciaran McLaughlin, Key Audit Partner

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

Ade Oyerinde, Senior Manager

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

Hal Parke, Audit InCharge Manager

Hal will support Ade in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will attend Audit and Governance Committee meetings and draft reports, ensuring they remain clear, concise and understandable to all. He will also carry out first reviews of the team's work and also oversee the review of the Whole of Government Accounts

Thanji Hooque, Audit Incharge Pension Fund

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

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Provide debtor and creditor listings that are the balances outstanding at the year end
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The Council's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- Respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for Surrey County Council and the Surrey County Council Pension Fund to begin with effect from 2018/19. The scale fee in the contract was £109,415 for the Council audit and £20,871 for the Pension Fund. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £28,870. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has previously been shared with the Executive Director of Resources. These fees are also subject to agreement with PSAA under the terms of our contract with them.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£130,915	£172,477	£192,235
Pension Fund audit	£27,871	£38,597	£35,571
Audit of subsidiary companies	£44,000	-	-
Total audit fees (excluding VAT)	£174,286	£211,074	£227,806

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis Council

Scale fee published by PSAA	£109,415
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors/Group accounts	£17,500
Enhanced audit procedures for Property, Plant and Equipment including additional work at accounts	£9,500
Enhanced audit procedures for Pensions	£4,000
Eco-Park Asset Accounting	£2,000
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£28,870
Increased audit requirements of revised ISAs	£20,950
Total audit fees (excluding VAT)	£192,235*

* The fees above does not include any Covid related costs for carrying out the 2020/21.

Audit fees – detailed analysis Pension Fund

Scale fee published by PSAA	£20,871
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures	£7,500
<i>New issues for 2020/21</i>	
Increased audit requirements of revised ISAs	£4,200
Total audit fees (excluding VAT)	£35,571*

* In addition, we incurred costs of £10,500 in 2019/20 providing IAS19 Assurance Letters to other auditors. This cost is charged to the Pension Fund, but is recoverable from those Pension Fund Employers. We expect the 2020/21 costs to be similar to 2019/20.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The other services provided by Grant Thornton are set out in the table opposite

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights (subscription ended July 2020)	12,500	As above	As above

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance (continued)

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance (continued)

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	✓
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓



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