Grant Thornton

Surrey County Council and Surrey County Council Pension Fund audit plan

Year ending 31 March 2022

May 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the 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.

Key matters - Council

Factors

Council financial position

Progress continues to be made to improve the Council's financial position however the medium-term financial outlook beyond 2021/22 remains uncertain. The public health crisis has resulted in increased costs which may not be fully funded. With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected in the medium term, the Council's working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. The Council recognises that this places an onus on management to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.

The Council is reporting a £1m surplus outturn for the year 2021/22 without the need to draw on reserves. The continuing impact of Covid for the year amounted to £99.4m and was financed by a combination of specific funding of £75.7m and general emergency funding from Department of Levelling Up, Housing and Communities of £23.7m. The Council is reporting a 78% achievement (£32.1m) of its efficiency target of £41.2m set at the start of the year. A significant proportion of the shortfall was within Children, Families, Lifelong Learning due to a number of factors including inflationary pressures in transport and increasing demand.

The Council set a capital budget of £185m at the start of the year which was later revised down to £170.6m in the last quarter of the year. The capital spend for the year was £162.4m which represents a 95% performance against the revised budget.

Accounting and auditing developments – IFRS 16 Leases deferral

Following an emergency consultation on proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its decision and feedback statement in March 2022. The decision allowed for Local Authorities to defer implementation of IFRS 16 Leases until 01 April 2024. It did however allow for Authorities to adopt the standard before this date should they wish to.

Pension Fund

Following the Russian invasion of Ukraine that has led to the UK Government sanctions Local Government Pension Scheme funds are being advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken. The Moscow Stock Exchange closed on February 28 2022 and an apparent ban on western companies from selling Russian investments was imposed by prime minister has compounded investors' liquidity problems, with markets for Russian stocks and government bonds drying up.

Members as the Funds Trustees are expected to uphold their fiduciary duties, prioritising scheme returns and the proper payment of pensions. However, Members are allowed to consider ethical factors concerning investments, and can divest from problematic assets provided that this does not prove materially detrimental to the scheme. The Pensions Regulator has asked all schemes to ensure that their investments are aligned with the UK government's sanctions on Russia.

McCloud

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes. The McCloud remedy will be implemented in two phases that will impact the 2022-23 financial year.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Executive Director of Resources.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit and Governance Committee updates.
- We will review your level of pension fund exposure in Russian and Belarus including the balances of valuation to ensure they are not materially misstated.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Surrey County Council ('the Council') 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 [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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.

Page 134

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Halsey Garton Property Ltd
- Hendeca Ltd
- Surrey Choices Ltd

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.

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.

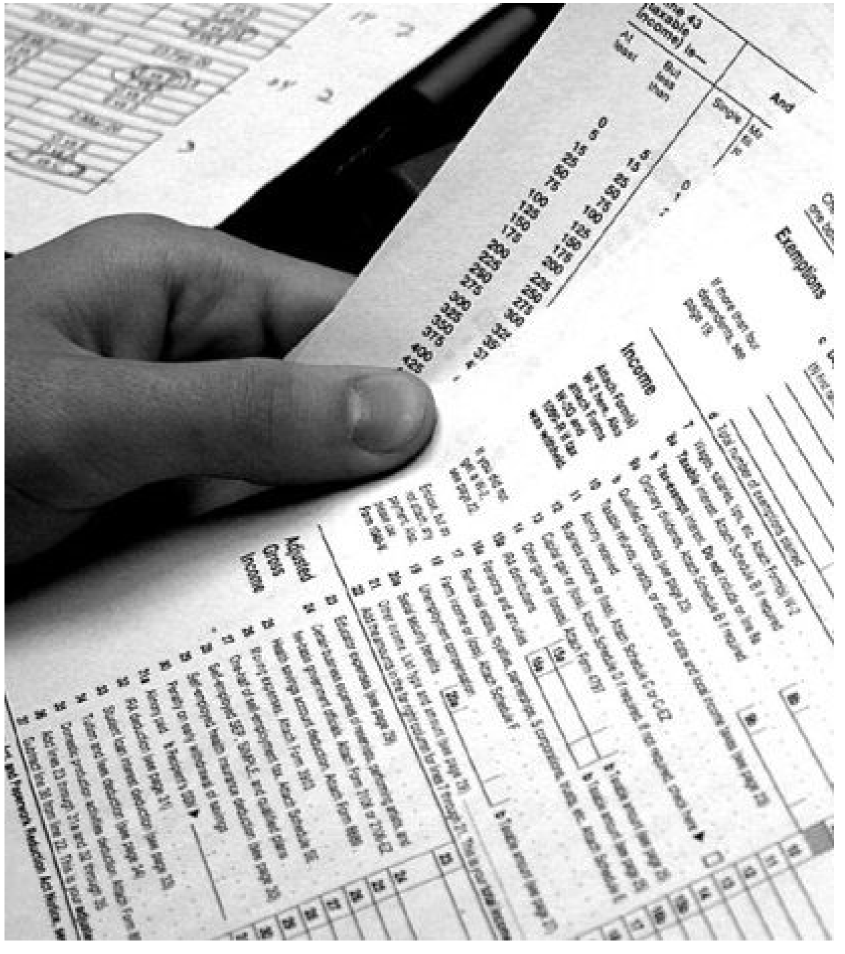
Materiality

We have determined planning materiality to be £26.6m (PY £25.9m) for the Group and £26.5m (PY £25.8m) for the Council 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).

Materiality - Pension Fund

We have determined materiality at the planning stage of our audit to be £50m (PY £38.5m) for the Pension Fund, which equates to approximately 1% of the 2020/21 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 £2.5m (PY £1.9m).

Introduction and headlines (cont.)



Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following areas of focus for our value for money assessment:

- Delivery of the planned financial performance in 2021-22, along with the future plans of the Council in 2022-23 and beyond including savings plans
- Delivery, monitoring and management of the Council's capital plans
- Review of arrangements for reporting and monitoring key strategic risks to members
- Review of how financial and performance information has been used to assess performance to identify areas for improvement.

Audit logistics

Our interim visit will take place in March 2022 and our final visit will take place between July – September 2022. Our key deliverables are this joint 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 £214,948 (PY: £209,935) for the Council and £40,571 (PY: £35,571) for the Pension Fund, subject to the Council delivering a good set of financial statements and working papers.

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 7 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 2022	Full scope audit performed by UHY Hacker Young LLP The nature, time and extent of our involvement in the work of UHY Hacker Young LLP 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 documentations and meeting with appropriate members of management.
Surrey Choices Limited	No	Analytical only	None	Analytical review performed by Grant Thornton UK LLP.
Hendeca Ltd	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 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 including the Pension Fund, 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 (cont.)

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 (£1.3 billion as at 31 March 2021) 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 2022. 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 (£122 million as at 31 March 2021) 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 2022. 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 (cont.)

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 (£2.1 billion in the Council's prior year 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.
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 (£494 million as at 31 March 2021) 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 2022.	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 2022 with reference to known movements in the intervening period. • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. • where available review investment manager service auditor report on design and operating effectiveness of internal controls.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
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 7 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 7.	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.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Council and Group	Infrastructure assets includes roads, highways, streetlighting and coastal assets. Last year the Council spent circa £78m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £432m which is over 15 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: I. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. II. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	We will: • reconcile the Fixed Asset Register to the Financial statements • using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets • obtain assurance that the UEL applied to Infrastructure assets is reasonable • document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated

Page 140

Other risks identified (cont.)

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 prior year balance sheet was £98m. 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.
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 (£8.0 billion as at 31 March 2021) 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.

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

Other risks identified (cont.)

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.

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

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.

Page 143

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

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 2022.

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

Council

- valuations of land and buildings, and investment properties
- credit loss and impairment allowances
- expenditure accruals
- depreciation
- valuation of defined benefit net pension fund liabilities
- valuation of level 2 and level 3 investments
- year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- provision for business Rates Appeals
- Minimum Revenue Provisions
- PFI Finance Lease liability

Pension fund

- investments Level 3
- Present Value of Promised Retirement Benefits

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 uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have shared a questionnaire with Management to obtain their responses over these accounting estimates. This document will be presented to the Committee for consideration and approval by those charged with governance once we have received these responses.

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

Other matters - Council

Other work - Council

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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial 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 work – Pension Fund

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act 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 for a judicial review under Section 31 of the Act; or
  - issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

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

We have determined planning materiality to be £26.6m (PY £25.9m) for the Group and £26.5m (PY £25.8m) for the Council 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).

Materiality - Pension Fund

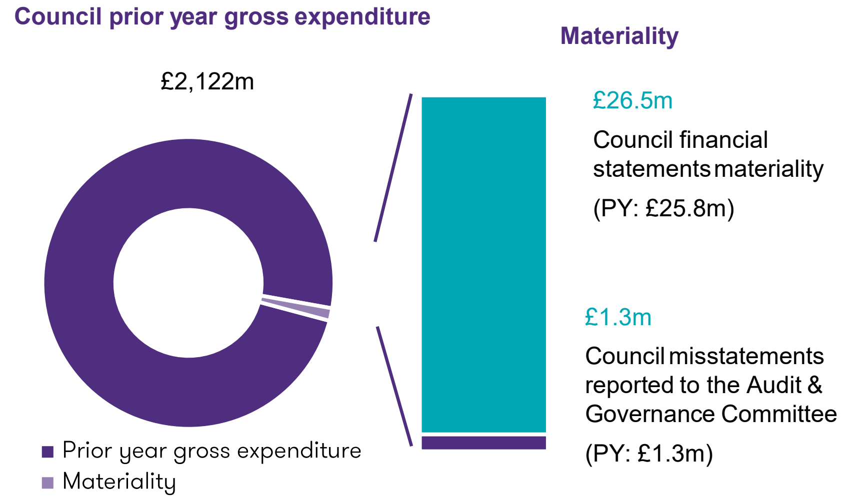
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £50m (PY £38.5m) for the Pension Fund, which equates to approximately 1% of the Pension Fund's prior year net assets.

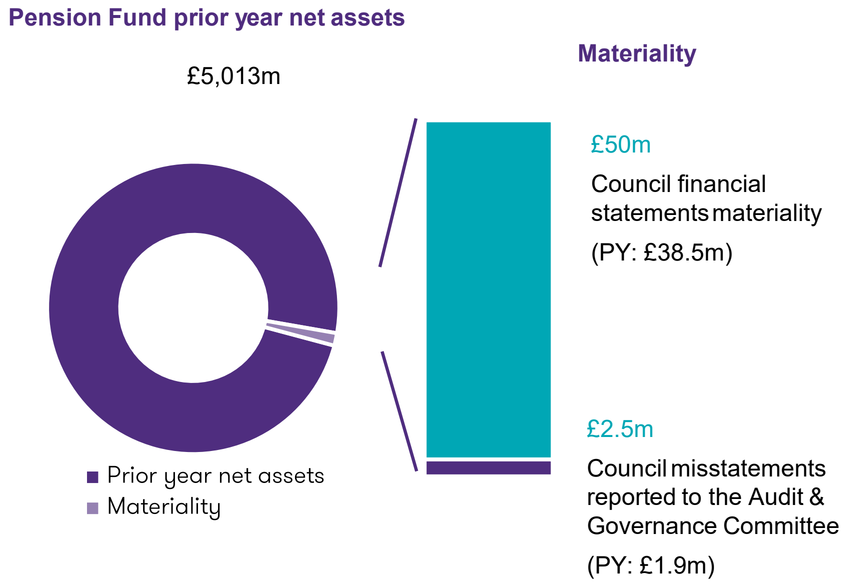
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

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 £2.5m (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.





Page 147

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under 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

- Delivery of the planned financial performance in 2021-22, along with the future plans of the Council in 2022-23 and beyond including savings plans
- Delivery, monitoring and management of the Council's capital plans
- Review of arrangements for reporting and monitoring key strategic risks to members
- Review of how financial and performance information has been used to assess performance to identify areas for improvement.

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

Planning and risk assessment
March 2022

Audit and Governance committee
June 2022

Audit Plan

Year end audit
July to September

Audit and Governance committee
September 2022

Progress meeting

Audit and Governance committee
November 2022

Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Ciaran McLaughlin, Key Audit Partner

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

Ade Oyerinde, 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.

Hammad Ahmad, Assistant Manager (Pension Fund)

Hammad 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

Sabrina Hisham, Assistant Manager (Main accounts)

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

Audited 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 items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- the Council's experts and component auditor 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

In 2021, 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 set by PSAA for 2020/21 was £115,415 for the Council audit and £20,871 for the Pension Fund. Since that time, there have been a number of on-going and new developments, particularly in relation to the revised Code and ISA's which are relevant for both 2020/21 and 2021/22 audits.

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 detailed on pages 13-15 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

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 {add details e.g. property valuations estimates}, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Executive Director of Resources.

	Actual Fee 2020/21	Proposed fee 2021/22
Council Audit	£209,935*	£214,948
Pension Fund audit	£35,571	£40,571
Total audit fees (excluding VAT)	£227,806	£255,519

* 2020/21 fee is inclusive of £17,700 fee overrun subject to PSAA approval

Assumptions

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

- prepare a good quality set of financial statements , 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.

Independence and non-audit services

Page 152

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 and UHY Hacker Young 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.

There are no non-audit related services provided during the year.

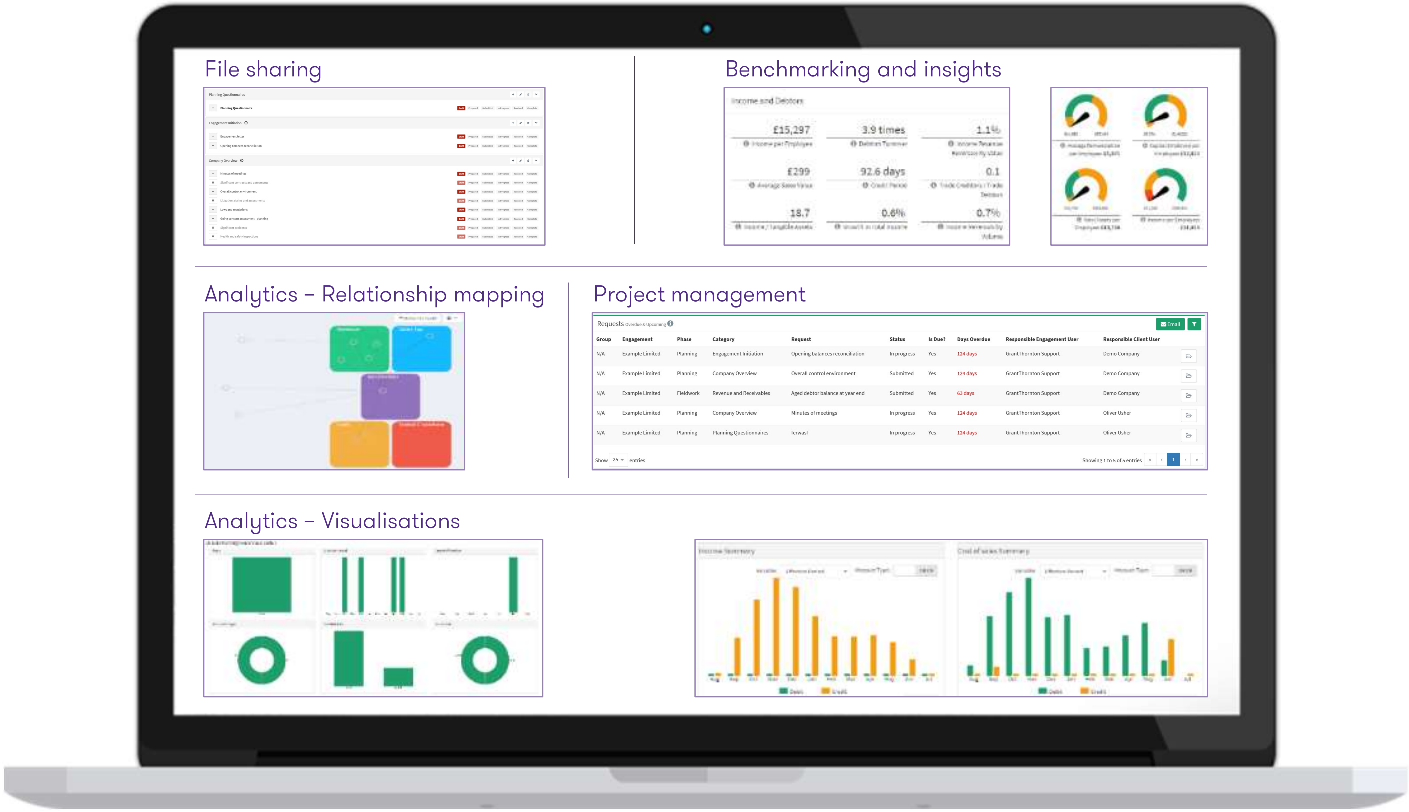
Service	Fees £	Threats	Safeguards
Audit related			
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	7,500	Self-interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison 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.
IAS19 Assurance letters for Admitted Bodies	14,575	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,575 in comparison to the total fee for the audit of £214,948 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations

Page 153



Inflo

Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection	More time for you to perform the day job
Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders. Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance. Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.	Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us. Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced. We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments. We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined. Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the group's financial statements. We will comment on each action in our Audit Findings Report .

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	Investment Property valuations We note that 3 Investment Properties with a combined value of £1m were not revalued at year end in line with the Code. Two out of the three Investment Properties were subsequently revalued in quarter 1 of 2021/22. and the third was not revalued. Risk that all Investment Properties are not revalued annually in accordance with the Code and the year end valuation could be misstated.	Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.
	Group accounts consolidations We noted a number of errors in the group consolidation and supporting working papers Risk that the consolidated group accounts are materially misstated and misleading to the reader of the accounts	Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.

Page 155

Appendix 1: Progress against prior year audit recommendations (cont.)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	SCC subsidiaries audit arrangements We experienced delays in receiving the subsidiaries audited accounts, supporting working papers and timely responses to auditor queries. Delays in receipt of subsidiaries audited accounts risks achieving the statutory deadlines for accounts preparation and audit of the accounts and adding further costs to the audit.	Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.
	Creditors completeness We noted a number of errors in the cut off testing of completeness in income and expenditure {unrecorded liabilities / income}. Risk of income and expenditure being materially misstated	Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.

Grant Thornton

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