

# Informing the audit risk assessment for Surrey County Council Group and Pension Fund 2021/22

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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 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 your business or any 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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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Surrey County Council and Pension Fund's (the Council and Fund) external auditors and Surrey's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee (Audit Committee) under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Council and Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Surrey County Council inquiries directed towards: Barry Stratfull (March & Aug 2022)

Surrey Pension Fund inquiries directed towards: Ayaz Malik/Siva Sanmugarajah (March & Aug 2022)

## General Enquiries of Management

Question	Management response (Council)	Management response (Fund)
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Financial impact of Covid-19 and the uncertainty of government funding. Change in the way councils provide services and the additional challenges presented during the year (often at short notice). Councils have had to keep critical services running whilst supporting the national Covid-19 effort. Possible Impact of the Ukraine situation.	The Fund has a minor exposure to direct holdings in regions connected to the conflict in Russia/Ukraine (less than 0.25% of the Fund as at 24 February 2022 - approximately £12million based on the Fund's total value of £5billion).
2. Have you considered the appropriateness of the accounting policies adopted by Council and Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	<p>Yes - The accounting policies for the council are in line with the CIPFA Code of Practice for Local Authority Accounting. The trading companies use private sector accounting policies. The group accounts will be based on the CIPFA Code and any adjustments required to ensure the policies of the group are consistent will be considered as part of the consolidation process.</p> <p>Yes – CIPFA's urgent consultation on temporary changes to the code to resolve infrastructure assets reporting issues has resulted in changes to our accounting policy for the treatment of additional capital expenditure on infrastructure assets.</p>	Yes - The accounting policies for the council are in line with the CIPFA Code of Practice for Local Authority Accounting. The trading companies use private sector accounting policies. The group accounts will be based on the CIPFA Code and any adjustments required to ensure the policies of the group are consistent will be considered as part of the consolidation process.
3. Is there any use of financial instruments, including derivatives? If so, please explain	<p>No - Derivatives are not used by the council.</p> <p>The council invests surplus cash with banks and other financial institutions in line with the treasury management strategy. In January 2022 a revised Treasury Management Strategy was approved by Council. This strategy continues to focus on using a combination of both short and long term borrowing. During 2021/22 the council has borrowed from other local authorities, pension fund and other public bodies.</p>	<p>The fund employs a currency hedging mandate with Legal and General Investment Management, which covers 50% of its global equities.</p> <p>Beyond this service, the Fund does not employ any external body for the purposes of trading financial instruments.</p>
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No - Not aware of any significant transactions over and above the Covid-19 service provisions mentioned above.	No - Not aware of any significant transactions outside the normal course of business

## General Enquiries of Management

Question	Management response (Council)	Management response (Fund)
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No - Not aware of any events in 2021/22	No - Not aware of any events in 2021/22
6. Are you aware of any guarantee contracts? If so, please provide further details	SCC has parental guarantees in place to fulfil the contracts of SE Business Services Ltd for providing data centre services to Central Surrey Health and First Community Health. Not aware of any other contracts	Not aware of any contracts in 2021/22
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No - Not aware of any that may affect the financial statements	Not aware of any that may affect the financial statements
8. Other than in house solicitors, can you provide details of those solicitors utilised by Council and Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	In-house legal department provides the majority of legal support through the Legal Services Department. External lawyers are used in some instances for specialist advice and capacity issues. They would be working mainly on open litigation	Eversheds – Pensions Law, Browne Jacobson – Legal Due Diligence

## General Enquiries of Management

Question	Management response (Council)	Management response (Fund)
<p>9. Have any of the Council and Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>Yes - There are reports of fraud, non-compliance and uncorrected misstatements as part of the bi-annual report on the irregularity and fraud investigations carried out by Internal Audit and the outcomes from the NFI that goes to the Audit and Governance Committee but they are not material and do not affect the financial statements.</p>	<p>Yes - There may well be reports of fraud, non-compliance and uncorrected misstatements as part of the bi-annual report on the irregularity and fraud investigations carried out by Internal Audit and the outcomes from the NFI that goes to the Audit and Governance Committee. They would not however be material and affect the financial statements.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Arlingclose provide treasury advice to the Council.            Bruton Knowles provide Valuation advice and reports            CBRE provide Investment property valuation advice and reports            Hymans Robertson provide pension fund advice and reports</p>	<p>Actuarial advice:            Hymans Robertson            Investment consultancy:            Mercer            Independent Advisor:            MJ Hudson</p> <p>Sustainability Advice:              Minerva</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Yes but no such issues have been identified.</p>	<p>Yes but no such issues have been identified.</p>



# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Council and Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Council and Fund's management.

# Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>1. Have the Council and Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council and Fund's risk management processes link to financial reporting?</p>	<p>Yes – The council is at risk of losses through fraud, bribery and corruption. The Council regularly assesses its exposure to fraud risk</p> <p>The Process of identifying and responding to the risk of Fraud is as follows (and also shows the link to financial reporting):</p> <ul style="list-style-type: none"> <li>• The Counter Fraud Strategy and Framework was presented to the Audit &amp; Governance Committee in May 2020.</li> <li>• A summary of irregularity investigations is presented to the Audit &amp; Governance Committee twice a year.</li> <li>• There is a whistle blowing policy in place with confidential reporting available</li> <li>• The council is a member of the National Anti-Fraud Network which provides fraud alerts as well as a number of services that can be used to aid investigation of suspected incidents of fraud</li> <li>• Appropriate internal control and internal check arrangements have been specified in SAP with automatic workflow to ensure authorisation at the appropriate level.</li> <li>• There is a requirement for managers to review their control arrangements and to report on any material breaches identified.</li> <li>• The Audit and Governance Committee receive the Annual Governance Statement, Corporate Governance Review, Effectiveness of Internal Audit review, the Annual Internal Audit Plan and the Annual Audit Letter .</li> </ul>	<p>Yes – The Fund is at risk of losses through fraud, bribery and corruption. The Fund regularly assesses its exposure to fraud risk</p> <p>The Process of identifying and responding to the risk of Fraud is as follows (and also shows the link to financial reporting):</p> <ul style="list-style-type: none"> <li>• The Counter Fraud Strategy and Framework was presented to the Audit &amp; Governance Committee in May 2020.</li> <li>• A summary of irregularity investigations is presented to the Audit &amp; Governance Committee twice a year.</li> <li>• There is a whistle blowing policy in place with confidential reporting available</li> <li>• The Council is a member of the National Anti-Fraud Network which provides fraud alerts as well as a number of services that can be used to aid investigation of suspected incidents of fraud</li> <li>• Appropriate internal control and internal check arrangements have been specified in SAP with automatic workflow to ensure authorisation at the appropriate level.</li> <li>• There is a requirement for managers to review their control arrangements and to report on any material breaches identified.</li> <li>• The Audit and Governance Committee receive the Annual Governance Statement, Corporate Governance Review, Effectiveness of Internal Audit review, the Annual Internal Audit Plan and the Annual Audit Letter .</li> </ul>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>All the companies have bank accounts. Only specific individuals have access to each account and there is a clear segregation of duties when making payments so the preparer and the authoriser are completely separate. This helps minimise the risk for fraudulent payments being made from the on-line banking.</p>	<p>The Pension Fund has a separate bank account. Only specific individuals have access to each account and there is a clear segregation of duties when making payments so the preparer and the authoriser are completely separate. This helps minimise the risk for fraudulent payments being made from the on-line banking.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Council and Fund as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No</p> <p>Significant risks are reported to the Audit and Governance Committee though the work of internal audit.</p> <p>The annual internal audit plan, as approved by the Audit &amp; Governance Committee, identifies resources which are set aside each year, using a risk based approach, within Internal Audit and this includes provision for the investigation of fraud and irregularity.</p>	<p>No</p> <p>Significant risks are reported to the Audit and Governance Committee though the work of internal audit.</p> <p>The annual internal audit plan, as approved by the Audit &amp; Governance Committee, identifies resources which are set aside each year, using a risk based approach, within Internal Audit and this includes provision for the investigation of fraud and irregularity</p> <p>Through the Fund's risk register which gets reported to the Local Pensions Board</p>

# Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>All heads of service are required to complete a monthly report setting out the current position of their budget, highlighting any significant issues and variations that have been identified.</p> <p>This report includes a summary of high level risk, emerging risks and issues that the head of services wishes to draw to the attention of the strategic director. In addition, each head of service is required to give a year end assurance statement to certify that they are satisfied with levels of compliance. This includes specific reference to the identification and reporting of fraud and irregularities in accordance with financial regulations.</p> <p>The risk register and associated reports will be discussed at management team level and also at Audit and Governance committee</p>	<p>Any issues relating to risk or fraud are shared with the Local Pension Board and Pension Fund Committee on quarterly basis. Furthermore, the Fund does keep a risk register which are presented to Local Board and Pension Fund Committee on quarterly basis.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council and Fund where fraud is more likely to occur?</p>	<p>Yes - The Council's Internal Audit strategy and plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers and the Internal Auditors own risk assessment of the Council's major systems and other auditable areas). The Chief Internal Auditor has provided reasonable assurance that the council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.</p> <p>Yes: Covid 19 continued to have an impact on the Council in 2021/22. Flexible working practices were adopted and audits were rescheduled. During 2021/22 there was a continued increase in the number of government grants that needed to be certified. The Digital Business and Insights programme Board have been given advice throughout the year seeking to provide specific assurance in the key areas to support critical decisions such as cutover and go-live</p> <p>No – Not that we are aware of.</p>	<p>The Funds financial management arrangements during 2021/22 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The Executive Director of Resources (s151) met his financial responsibilities during the year and ensured financial management arrangements were in place. He reports directly to the Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor and other Executive Directors.</p> <p>The Fund is currently going through its internal audit in relation to its Investments. The report will be shared with Grant Thornton.</p>
<p>6. What processes do the Council and Fund have in place to identify and respond to risks of fraud?</p>	<p>See above.</p> <p>Also - The council's financial management arrangements during 2021/22 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The Executive Director of Resources (s151) met his financial responsibilities during the year and ensured financial management arrangements were in place. He reports directly to the Chief Executive</p>	<p>See above</p>

## Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>7. How do you assess the overall control environment for the Council and Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>The Chief Internal auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement. The Council's internal audit strategy and plan is updated each year based on risk assessments.</p> <p>Based on the internal audit work completed, the Chief Internal Auditor has provided Reasonable Assurance that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.</p> <p>The majority of audit opinions issued in the year were generally positive although internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by one minimal assurance opinion and eight partial assurance opinions issued in the year. Reports would have been issued with recommended actions . All nine areas will be subject to a follow-up audit to ensure the expected improvement has occurred</p> <p>In addition to specific audit reviews the internal audit team undertake regular liaison activity with all directorates to understand emerging pressures and risk areas, and then amend their plan of work</p>	<p>The majority of audit opinions issued in the year were generally positive although internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective. The internal audit plan, which ensures internal controls are adequately reviewed, is produced annually on a risk based methodology. An Investment Audit by Internal Audit is carried out on a regular basis and recent audits have found the control environment to be effective and testing did not identify any issues with a sample of journals selected. Journal input continues to be decentralised and can be done by a wide range of SAP user profiles.</p> <p>Internal audit reports note a weak control environment over banking controls. Actions have been agreed to mitigate the impact and have been included in an internal audit report.</p>

# Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>7 Continued</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>None that we are aware of</p>	
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There is potential for misreporting but the risk register and other controls put in place to mitigate the risks will reduce the likelihood.</p>	<p>There is potential for misreporting but the risk register and other controls put in place to mitigate the risks will reduce the likelihood.</p>

## Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>9. How does the Council and Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>A new Counter Fraud Strategy and Framework was developed and presented to the Audit &amp; Governance Committee in May 2020. This has been reported to committees and is uploaded to the Councils website and intranet. There is also a published code of conduct for all members and staff.</p> <p>Surrey County Council is committed to the highest possible standards of honesty, openness, probity and accountability. The Council seeks to conduct affairs in a responsible manner, to ensure that all activities are open and effectively managed, and to sustain integrity and principles of public interest disclosure. Employees, contracted workers and other stakeholders who have serious concerns about any aspect of our work are encouraged to come forward and voice those concerns.</p> <p>Staff and contractors can use the Navex Global hotline service for whistleblowing. The hotline can be called any time, night or day, in complete confidence if you believe that someone acting on our behalf is involved in criminal activity, fraud, theft or damage to our property or reputation. Your call will not be traced or monitored.</p> <p>No significant issues have been reported</p>	<p>A new Counter Fraud Strategy and Framework was developed and presented to the Audit &amp; Governance Committee in May 2020. This has been reported to committees and is uploaded to the Councils website and intranet</p> <p>Code of conduct is given to all staff.</p> <p>No significant issues have been reported.</p>

## Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Fraud is a risk throughout the organisation. Fraud may be attempted wherever there is cash, goods, information or services. Anyone carrying out business for or on behalf of the council are deemed to be a risk.</p> <p>Risks will be identified using expertise from within and from outside the organisation. Risk registers will be regularly reviewed and updated to reflect the impact and likelihood of occurrence.</p>	<p>Fraud in an issue throughout the organisation. Fraud may be attempted wherever there is cash, goods, information or services. Anyone carrying out business for or on behalf of the council are deemed to be a risk.</p> <p>Risks will be identified using expertise from within and from outside the organisation. Risk registers will be regularly reviewed and updated to reflect the impact and likelihood of occurrence.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Council is required to disclose material transactions with related parties. These bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council are disclosed in note 32 to the statement of accounts.</p> <p>Members and senior officers are required to complete related party disclosures forms annually, declaring whether they have a related party interest to declare and if so to state the nature of the declaration.</p>	<p>The Fund is required to disclose material transactions with related parties. These bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council are disclosed in note 22 to the Pension Fund Accounts</p>

## Fraud risk assessment

Question	Management response (Council)	Management response (Fund)
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Arrangements in place to report fraud:</p> <ul style="list-style-type: none"> <li>• Internal audit plan</li> <li>• The Counter Fraud Strategy and Framework</li> <li>• Whistleblowing policy</li> </ul> <p>A summary of irregularity investigations is presented to the Audit &amp; Governance Committee twice a year. There is a requirement for managers to review their control arrangements and to report on any material breaches identified. The Audit and Governance Committee receive the Annual Governance Statement, Corporate Governance Review, Effectiveness of Internal Audit review, the Annual Internal Audit Plan and the Annual Audit Report for scrutiny and comment</p> <p>The Chief Internal Auditor has provided Reasonable Assurance that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022. Any areas in need of improvement have been reported to committee and improvement plans will be reinvestigated.</p>	<p>Arrangements in place to report fraud:</p> <ul style="list-style-type: none"> <li>• Internal audit plan</li> <li>• The Counter Fraud Strategy and Framework</li> <li>• Whistleblowing policy</li> </ul> <p>A summary of irregularity investigations is presented to the Audit &amp; Governance Committee twice a year. There is a requirement for managers to review their control arrangements and to report on any material breaches identified. The Audit and Governance Committee receive the Annual Governance Statement, Corporate Governance Review, Effectiveness of Internal Audit review, the Annual Internal Audit Plan and the Annual Audit Report for scrutiny and comment.</p> <p>The Chief Internal Auditor has provided Reasonable Assurance that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022. Any areas in need of improvement have been reported to committee and improvement plans will be reinvestigated.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None that we are aware of</p>	<p>None that we are aware of</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None that we are aware of</p>	<p>None that we are aware of</p>



# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Council and Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response (Council)	Management response (Fund)
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council and Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council and Fund's regulatory environment that may have a significant impact on the Council and Fund's financial statements?</p>	<p>Professional networks. Local authority and public sector groups. External consultants and sector experts</p> <p>Internal Audit's Annual Governance Statement (AGS) provided to Audit &amp; Governance Committee, Information presented to the Audit and Governance Committee i.e. Risk Registers, Performance Reports, Cyber Security Policy, Breaches Policy, Breaches Report, Internal Dispute Resolution Procedure (IDRP), Business Continuity Plan, FOI responses, Technical Manager horizon scanning of legal and regulatory requirements.</p> <p>Controls built into the system (Altair, SAP), Performance Management, Regular Supervision, Monitoring of build-up of backlogs.</p> <p>Not aware of any changes.</p>	<p>Professional networks. Local authority and public sector groups. External consultants and sector experts</p> <p>Internal Audit's Annual Governance Statement (AGS) provided to Audit &amp; Governance Committee (2020-21 AGS attached), Information presented quarterly to the Local Pension Board i.e. Risk Registers, Performance Reports, Cyber Security Policy, Breaches Policy, Breaches Report, Internal Dispute Resolution Procedure (IDRP), Business Continuity Plan, FOI responses, Technical Manager horizon scanning of legal and regulatory requirements.</p> <p>Controls built into the system (Altair, SAP), Performance Management, Regular Supervision, Monitoring of build-up of backlogs.</p> <p>Items identified in horizon scanning indicate the need for resources to address issues such as Dashboards and implications of McCloud judgement.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Relevant qualified officers will be present at committee and sign off reports to say that laws and regulations have been complied with. Experts will also be called to appear where required.</p>	<p>Relevant qualified officers will be present at committee and sign off reports to say that laws and regulations have been complied with. Experts will also be called to appear where required.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>None</p>	<p>None</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>None that we are aware of.</p>	<p>None that we are aware of</p>

## Impact of laws and regulations

Question	Management response (Council)	Management response (Fund)
5. What arrangements does the Council and Fund have in place to identify, evaluate and account for litigation or claims?	Provisions and contingent liabilities are discussed with the legal and insurance teams each year to ensure that they are still accurate and that no additional liabilities have risen.	Regular communication and monitoring reports are provided by legal advisors as to the assessment of potential class action claims.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None that we are aware of.	None that we are aware of.

# Related Parties

## Matters in relation to Related Parties

The Council and Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council and Fund.
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council and Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council and Fund, or of any body that is a related party of the Council and Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council and Fund's perspective but material from a related party viewpoint then the Council and Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties

Question	Management response (Council)	Management response (Fund)
<p>1. Have there been any changes in the related parties including those disclosed in the Council and Fund's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and the Council and Fund</li> <li>whether the Council and Fund has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>None that we are aware of.</p> <p>Members and senior officers are required to complete related party disclosures forms annually, declaring whether they have a related party interest to declare and if so to state the nature of the declaration.</p>	<p>None that we are aware of.</p> <p>Members and senior officers are required to complete related party disclosures forms annually, declaring whether they have a related party interest to declare and if so to state the nature of the declaration.</p>
<p>2. What controls does the Council and Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The external audit plan for 2021/22 does not identify any significant risks in terms of related parties reporting. The value of income and expenditure at the companies is relatively low and a misstatement at a subsidiary level is unlikely to have a material impact on the statement. The risk in relation to financial reporting remains low.</p>	<p>The external audit plan for 2021/22 does not identify any significant risks in terms of related parties reporting. The value of income and expenditure at the companies is relatively low and a misstatement at a subsidiary level is unlikely to have a material impact on the statement. The risk in relation to financial reporting remains low.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council's constitution, financial regulations and scheme of delegation within the agreed constitution are in place for transactions and arrangements</p>	<p>The Council's constitution, financial regulations and scheme of delegation within the agreed constitution are in place for transactions and arrangements</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Council's constitution, financial regulations and scheme of delegation within the agreed constitution are in place for all transactions and arrangements. Additional terms will be agreed within the scheme of delegation and rules and regulations if required.</p>	<p>The Council's constitution, financial regulations and scheme of delegation within the agreed constitution are in place for all transactions and arrangements. Additional terms will be agreed within the scheme of delegation and rules and regulations if required.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response (Council)	Management response (Fund)
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by the Council and Fund will no longer continue?</p>	<p>Surrey County Council's accounts are drawn up under the CIPFA Local Authority Accounting Code of Practice (The Code). The Code requires Local Authorities to prepare their financial statements on a going concern basis, on the assumption that a council will continue to operate for the foreseeable future. This assumption is based on the fact that local authorities carry out functions essential to the local community, exist by statute and are themselves revenue-raising bodies. If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year</p> <p>Whilst, like all local authorities, the Council is currently operating in a challenging and uncertain financial environment, we do not have reason to conclude that the assumption to report on a going concern basis is no longer valid or that there is any evidence to suggest that the going concern assumption should be rebutted.</p>	<p>The assumption is that the Pension Fund will continue to operate for the foreseeable future, unless all of the over 300 employers defaulted at the same time. We monitor issues with the employers by analysing delays in contributions being paid which may indicate that the employers may be struggling.</p>
<p>2. Are management aware of any factors which may mean for the Council and Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>None</p>	<p>None</p>
<p>3. With regard to the statutory services currently provided by the Council and Fund, does the Council and Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for the Council and Fund to cease to exist?</p>	<p>The Council expects to continue to deliver current statutory services for the foreseeable future.</p>	<p>The Fund expects to continue to deliver current services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits the Council and Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes</p>	<p>Yes</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.



# Accounting Estimates - General Enquiries of Management

Question	Management response (Council)	Management response (Fund)
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Property, Plant and Equipment – the valuation techniques used by the external valuers, Bruton Knowles, involve a number of estimates and assumptions.</p> <p>Pension liability – This is calculated by the pension fund's actuary and involves a number of complex judgements related to retirement ages, longevity and expected rates of return on investments.</p> <p>In addition: challenging assumptions and judgements in significant accounting estimates in respect of property plant and equipment land and buildings, and investment property. Also the completeness and accuracy of accruals and payables. Significant assumptions have been made for Property plant and equipment, Fair value of Investment properties, Council Tax and Business Rates Baseline, Debtors and Fair Value measurements. When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example the investment properties and surplus asset valuations are done by expert firms).</p>	<p>The calculation of fund benefit liabilities depends on a number of complex judgements made about pensions paid significantly into the future. An actuary firm is engaged to provide the fund with expert advice about the assumptions to be applied.</p> <p>Level 3 Private equity investments and Property Investments, are held at fair value, but these investments are not readily traded and so a market price involves a reasonable amount of uncertainty. Private equity investment valuations are provided by external fund managers.</p>
<p>2. How does the Council and Fund's risk management process identify and address risks relating to accounting estimates?</p>	<p>Any risks identified will be highlighted and reported back to officers who would investigate using experts where necessary. It would form part of the departmental or corporate risk register. Accounting policies will be reviewed as part of the closure of accounts</p>	<p>Any risks identified will be highlighted and reported back to officers who would investigate using experts where necessary. It would form part of the departmental or corporate risk register. Accounting policies will be reviewed as part of the closure of accounts</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response (Council)	Management response (Fund)
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Evaluate skills within team and use specialist advice where necessary	Evaluate skills within team and use specialist advice where necessary
7. How does the Council and Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Based on the code of practice and specialist knowledge. The following will be looked at:  Contract terms, Performance management, Sense check response. There will also be Sign off and authorisation checks and review of data transferred	Contract terms. Performance management. Sense check response. Sign off and authorisation checks and review of data transferred
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management will monitor Contract agreement and conduct a Review of data provided. There will be General internal controls (including internal audit)	Management will monitor Contract agreement and conduct a Review of data provided. There will be General internal controls (including internal audit)
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Controls are in place across the organisation to prevent material misstatement. The finance ledger is regularly monitored through monthly budget monitoring. Regular balance sheet monitoring through the production of a quarterly balance sheet and the certification of balances process help ensure balances are materially accurate.	Controls are in place across the organisation to prevent material misstatement. The finance ledger is regularly monitored throughout the year.

## Accounting Estimates - General Enquiries of Management

Question	Management response (Council)	Management response (Fund)
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No - All estimates that require significant judgement will be included in Appendix A	No - All estimates that require significant judgement will be included in Appendix A
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Any items identified have been produced following the code of practice and the code of practice guidance. In addition staff are qualified and external advisers are used where appropriate. All workings will be reviewed by suitably qualified staff .	Any items identified have been produced following the code of practice and the code of practice guidance. In addition staff are qualified and external advisers are used where appropriate. All workings will be reviewed by suitably qualified staff .
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Professionals will sign off the statements to say that they are prepared using code of practice and other regulations. Both internal and external auditors will be able to give the committee assurance and reports from recognised experts will be heard at committee.	Professionals will sign off the statements to say that they are prepared using code of practice and other regulations. Both internal and external auditors will be able to give the committee assurance and reports from recognised experts will be heard at committee.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations - Council	IAS 16 – initially measured at cost. Assets carried in Balance Sheet using DHC, EUV-SH, EUV, DRC, Current Value depending on nature of asset	As per external valuers report	Yes- External valuers – Bruton Knowles	Expert valuation inform the accounting entries based on the assumptions of value and economic life. The economic life is calculated by Valuer and assumption is that consumption of benefits from the asset will be spread over this life.	No
Investment property valuations	IAS40 – initially at cost and subsequently at fair value. Measured at highest and best use. Not depreciated but revalued annually according to market conditions	As per external valuers report	Yes- External valuers – Bruton Knowles	Expert valuation inform the accounting entries based on the assumptions of value and economic life. The economic life is calculated by Valuer and assumption is that consumption of benefits from the asset will be spread over this life.	No
Depreciation	Depreciation is allocated over useful lives. Calculated using straight line allocation over the useful life of an asset	External valuers economic life calculation. Periodic review of UEL	No – although economic life calculation from external valuer is used	Estimated useful lives of assets based on assumptions of future maintenance of the asset. If future spending on maintenance was to change the useful lives may also change.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities - Council	<p>Calculated by a qualified actuary in accordance with current accounting requirements and based on the information provided by the Pension Fund with respect to the Authority.</p> <p>The process through which the Council submits data to the actuary, how they account for the IAS19 report and the controls around this are outlined in detail in the IAS19 process documentation.</p>	As per actuaries report	Yes – we use Hymans Robertson to value pension liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. These are all calculated by the actuary based on the underlying data provided to them.	No
Level 2 investments – Fund (Private Equity and Property Unit Trust)	Provided by external treasury advisors Arlingclose	Review fair value by external advisors is carried out for reasonableness	Yes we use Arlingclose as Treasury advisors	The assumptions underpinning the fair value process are: - instruments with quoted market prices – the market price - other instruments with fixed and determinable payments – discounted cash flow analysis.	No
Level 3 investments – Fund (Private Equity, Fund of Fund investments, and Property Unit trust)	Provided by external treasury advisors Arlingclose	Review fair value by external advisors is carried out for reasonableness	Yes we use Arlingclose as Treasury advisors	The assumptions underpinning the fair value process are: - instruments with quoted market prices – the market price - other instruments with fixed and determinable payments – discounted cash flow analysis.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions – Council	estimate is derived from system reports. Different percentages are applied to the debt to calculate the required provision. The older the debt the higher the percentage applied.	As the bad debt provision is a journal entry to adjust the pre-existing bad debt provision, journal controls are applied.	No	Assumptions made around the collectability of debt include.... 0 - 6 months are not provided for. 7 - 12 months are provided for using 10% of the balance. 13 - 18 months are provided for using 30% of the balance. 19 - 24 months are provided for using 700% of the balance. 24+ months are provided for using 100% of the balance.	No
Accruals - Council	Accruals are estimated using quoted costs, estimations based on market rates and past expenditure.	finance team members reviews the accrual for reasonableness.	No	The assumptions underpinning the accruals process are: - That cost will be incurred. - Where invoice is yet to be received, assumption that cost will be in line with previous invoices.	No
Credit loss and impairment allowances - Council	Credit losses on all financial assets held at amortised costs or FVOCI either on a 12 month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.	A collective assessment is made for groups of instruments where reasonable and supportable information is not available for individual instruments without undue cost or effort. The aim will be to approximate the result of recognising lifetime expected credit losses if significant increases in credit risk since recognition had been measurable for the individual instruments.	No	Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities - Council	Payments made to the contractor are described as unitary payments. Unitary payments have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The value of any capital works are matched in the balance sheet by recognising a liability, either a finance lease liability or a deferred income liability where the contractor is able to exploit the assets for their own business.	PFI models are regularly revisited	No	Annual payments may be dependent on performance (i.e. tonnage of waste sent for disposal, beds available to purchase at care homes). Contract management will closely monitor performance and council liabilities	No
PFI Liabilities - Council	Payments made to the contractor are described as unitary payments. Unitary payments have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The value of any capital works are matched in the balance sheet by recognising a liability, either a finance lease liability or a deferred income liability where the contractor is able to exploit the assets for their own business.	PFI models are regularly revisited	No	Annual payments may be dependent on performance (ie tonnage of waste sent for disposal, beds available to purchase at care homes). Contract management will closely monitor performance and council liabilities	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PV of Promised retirement benefits - Fund	Estimate of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used. Hymans Robertson is the management's expert who make the estimate.	Management use Hymans Robertson to make the estimation. Hymans Robertson is audited and regulated by the Financial Conduct Authority. Regular reports are submitted to the Pension fund committee and Board.	Yes. Hymans Robertson is engaged to make the estimation.	<p>Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p> <p>Actuary makes estimate using professional valuations and other appropriate financial information. Keys assumptions are agreed with the Pension Fund committee.</p> <p>Assumptions used by the actuary are challenged. If there is material estimation uncertainty then this is disclosed in the financial accounts.</p>	No





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