

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time
Monday, 20
February 2017
at 10.00 am

Place
Members Conference
Room, County Hall,
Kingston upon
Thames, Surrey KT1
2DN

Contact
Angela Guest
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty

angela.guest@surreycc.gov
k



We're on Twitter:
@SCCdemocracy

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email angela.guest@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Angela Guest on 020 8541 9075.

Members

Mr Stuart Selleck (Chairman), Mr Denis Fuller (Vice-Chairman), Mr W D Barker OBE, Mr Will Forster, Mr Tim Hall and Mr Saj Hussain

Ex Officio:

Mr David Hodge CBE (Leader of the Council), Mr Peter Martin (Deputy Leader and Cabinet Member for Economic Prosperity), Mrs Sally Ann B Marks (Chairman of the County Council) and Mr Nick Skellett CBE (Vice-Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [5 DECEMBER 2016]

(Pages 1
- 10)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

- (i) Any disclosable pecuniary interests and / or
- (ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*14 February 2017*).
2. The deadline for public questions is seven days before the meeting (*13 February 2017*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND BULLETIN

(Pages
11 - 22)

To review the Committee's recommendations tracker.

6 ETHICAL STANDARDS - ANNUAL REVIEW

(Pages
23 - 40)

To receive an overview of the operation of the Code of Conduct and provision of support to Members on the Code of Conduct.

- 7 STATUTORY RESPONSIBILITIES NETWORK** (Pages 41 - 44)
- This report updates the Audit & Governance Committee on activity of the Statutory Responsibilities Network.
- 8 2016/17 EXTERNAL AUDIT PLAN AND KEY PERFORMANCE INDICATORS** (Pages 45 - 76)
- This report provides the Audit & Governance Committee with the Audit Plan and the proposed Key Performance Indicators (KPIs) for the external audit of the 2016/17 financial statements of the Council.
- 9 2015/16 AUDIT FINDINGS REPORT FOR SURREY CHOICES LTD** (Pages 77 - 138)
- This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2015/16 financial statements of Surrey Choices Ltd.
- 10 MINIMUM REVENUE PROVISION CALCULATION** (Pages 139 - 142)
- This report informs the Committee of a change in the way the minimum revenue provision is calculated for the Council.
- 11 COMPLETED INTERNAL AUDIT REPORTS** (Pages 143 - 156)
- The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.
- 12 2016/17 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT** (Pages 157 - 166)
- This report sets out the findings and recommendations from the 2016/17 review of the effectiveness of the system of internal audit in Surrey County Council. The agreed Terms of Reference for this review are attached at Annex A
- 13 ANNUAL REPORT OF THE AUDIT & GOVERNANCE COMMITTEE** (Pages 167 - 180)
- For Members to consider and comment on the annual report of the Audit & Governance Committee.
- 14 TREASURY MANAGEMENT STRATEGY** (Pages 181 - 216)
- This report sets out the council's treasury management strategy for 2017/18, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators to 2019/20, in accordance with the requirements of the CIPFA Prudential Code.
- 15 EXCLUSION OF PUBLIC**
- Recommendation:** That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following two items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part1 and Part 3 of Schedule 12A of the Act.

16 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 27 March 2017.

David McNulty
Chief Executive

Published: 9 February 2017

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 5 December 2016 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

Mr Stuart Selleck (Chairman)
Mr Denis Fuller (Vice-Chairman)
Mr W D Barker OBE
Mr Will Forster
Mr Tim Hall
Mr Saj Hussain

61/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apologies for lateness was received from Mr Tim Hall who arrived at 10.15am during item 6 of the agenda.

62/16 MINUTES OF THE PREVIOUS MEETING - 26 SEPTEMBER 2016 [Item 2]

The Minutes were approved as an accurate record of the previous meeting.

63/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

64/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

65/16 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]

Declarations of interest:

None

Key points raised during the discussion:

1. A20/15 and A43/15 to be merged as one item.
2. Item A45/15, A1/16 and A4/16 to be removed.

Full discussion on the tracker items took place after item 6 on the agenda and included the following points:

3. A20/15 and A43/15 - Three Members had attended the Social Care Services Board (SCSB) meeting on 26 October to discuss Adult Social Care financial accounting. Each had differing levels of confidence that the issues were being taken seriously and being dealt with effectively. One of those Members who is also a Member of SCSB explained that work was taking place to improve the confidence of those receiving

care, that were fearful or distrusting of banks and direct debits. The target was to have 100% payments by direct debit.

4. That the merged A20/15 and A43/15 items remain on the tracker in order that the issues be flagged up to the post election committee members.
5. That A18/15 – SEND strategy be kept on the tracker and reviewed in the New Year when the expected Ofsted letter was published.

Action/Further information to note:

A20/15 and A43/15 to be merged as one item and Items A45/15, A1/16 and A4/16 to be removed from the tracker.

RESOLVED:

That the committee notes the report.

66/16 REVIEW OF ENTRIES TO THE ONLINE GIFTS AND HOSPITALITY REGISTER [Item 6]

Declarations of interest:

None

Witnesses:

Ken Akers, Head of Human Resources and Occupational Development

Key points raised during the discussion:

1. The Gifts and Hospitality Policy required the Chief Executive or a designated officer to present an annual report to an appropriate committee of the council for consideration. Apologies were given that a recent Internal Audit review of gifts and hospitality arrangements identified that a report was last presented to this Committee in 2011.
2. To ensure compliance with the Gifts and Hospitality guidance and address the related Internal Audit recommendation, this report presented a summary of the gifts and hospitality recorded online during the period 1 April 2011 to 31 March 2016.
3. The Head of Human Resources and Occupational Development, in response to a Member query reported that he saw no relation to Children, School's and Families (CSF) department having the highest number of receipts and being the poorest performing department. That CSF worked closely with the public so it was to be expected that they would receive a higher number.
4. Members recognised that the system relied heavily on people being honest and in response to a query the Head of Human Resources and Occupational Development reported that managers are trained to act as role models, trends were monitored and Audit asked to look at areas of concern.

Actions/ further information to be provided:

That the annual report be put on the Committee's forward plan for May/June 2017.

Resolved:

To note the content of this report, the detail of which has been shared with the Statutory Responsibility Network.

67/16 PROPERTY ASSET MANAGEMENT SYSTEM: UPDATE [Item 7]**Declarations of interest:**

None

Witnesses:

Claire Barrett, Deputy Chief Property Officer
Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Deputy Chief Property Officer reported that the new IT system had been rolled out and was fully implemented apart from an interface to/from SAP for rent and service charge transactions which was hoped to be live by the new financial year. She explained that the system was made up of seven modules which were all in place and had gone live. Upgrades to systems, staff training and any developments to add further benefits to the system would be ongoing.
2. Members queried why the Council's investment properties were not managed under PAMS as it would seem to improve efficiency to use the same system. The Deputy Chief Finance Officer undertook to look into and consider this proposal.
3. The Deputy Chief Finance Officer undertook to respond to a Member query regarding who presently managed the Halsey Garton properties after the meeting.
4. In response to a query regarding capacity issues of the PAMS system it was reported that the system was cloud hosted so the capacity could be endless.

Actions/ further information to be provided:

1. That the Deputy Chief Finance Officer and Chief Property Officer look into and consider the use of PAMS for the Halsey Garton properties. (Tracker A9/16)
2. That details of the current management details of Halsey Garton be sent to committee members following the meeting. (Tracker A10/16)

Resolved:

That progress made since the conclusion of the joint implementation project with Hampshire County Council was noted.

68/16 BABCOCK 4S LIMITED - DIRECTOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 2016 [Item 8]**Declarations of interest:**

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. Members discussed the need to monitor Babcock 4s and how it would operate in the future with its diminishing support as a result of diminishing budgets.
2. The Deputy Chief Finance Officer reported that officers met with Babcock on a regular basis and were discussing ways forward.
3. One Member queried the lack of information on the County's future position with Babcock as there appeared to be a retreat from Babcock on government services. The Deputy Chief Finance Officer offered to raise this issue with the portfolio holder. The Chairman would also write to the portfolio holder regarding the committee's concerns.

Actions/ further information to be provided:

1. The Chairman to write a letter to the Cabinet Member for Business Services and Resident Experience regarding the Committee's concerns. (Tracker A11/16)
2. Committee Manager to resend Babcock sales pack to Mr Barker. (Tracker A12/16)

Resolved:

1. To note the Annual Report and Statements;
2. To note the findings at the informal meeting of the Audit & Governance Committee.

69/16 EXTERNAL AUDIT UPDATE REPORT [Item 9]**Declarations of interest:**

None

Witnesses:

Geoffrey Bannister, Grant Thornton

Key points raised during the discussion:

1. Mr Bannister introduced the report and explained that the audit involved looking at systems in place to capture details rather than looking at the details.

Resolved:

To note the external auditor's progress report.

The Committee adjourned for a comfort break from 10.55 am and reconvened at 11.05 am.

70/16 2015/16 AUDIT FINDINGS REPORT FOR SE BUSINESS SERVICES AND HALSEY GARTON [Item 10]

Declarations of interest:

None

Witnesses:

Geoffrey Bannister, Grant Thornton Manager
Susan Smyth, Strategic Finance Manager

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the Audit Findings Report and stated that there had been good co-operation during the audit.
2. In response to a query about identifying fraud, the Grant Thornton Manager explained that Grant Thornton were responsible for any material fraud and expected companies to notify them of any fraud to be brought to their attention. It was not the responsibility of Grant Thornton to look at systems.
3. There was a query relating to the reasonableness of the interest rate on the intergroup loan which was 6% for £10m. The Strategic Finance Manager explained that this rate was market compliant.
4. It was reported that whilst personnel changes in Grant Thornton had delayed getting some sign offs they were still within deadlines.
5. The Strategic Finance Manager also reported that investment properties were managed by agents but key events would be put into the PAMS system in the future.
6. The Committee requested that the annual accounts for the two companies be presented alongside the audit findings in the future. The Grant Thornton Manager explained that sign off by the companies would be needed for them to do that.
7. The Strategic Finance Manager explained that the companies employ their own auditors separate to the Council's auditors but in this instance it was the same auditor. She also sought to reassure that Committee that the Shareholder Board could act quickly if for some reason the director's were incapacitated. In response to a query regarding shadow directors she reported that to her knowledge there were no known or perceived shadow directors.
8. The Strategic Finance Manager confirmed that extended guarantees for safeguards to members and officers had been approved by Cabinet so there was no personal liability for them.

Actions/ further information to be provided:

That the annual accounts be presented alongside the annual audits in future.

Resolved:

That the committee noted the 2015/16 Audit Findings Report for S. E. Business Services Ltd & Halsey Garton Ltd.

71/16 TREASURY MANAGEMENT HALF YEAR REPORT 2016/17 [Item 11]**Declarations of interest:**

None

Witnesses:

Phil Triggs, Strategic Manager Pensions & Treasury
Alex Moylan, Senior Accountant

Key points raised during the discussion:

1. The Strategic Manager Pensions & Treasury introduced the report. He explained that under the Markets in Financial Instruments Directive II (MIFID II) which was due to come into effect from January 2018, all local authorities would be automatically classified as retail status (both pension fund and treasury). A retail status infers that local authorities are not professionally competent to understand the instruments in which they are dealing, and so will have to rely on the particular investment firm to advise them of all the investment risks. Local authorities will be able to "opt up" to professional status, but the process will need to be with every counterparty (investing), and is destined to be administratively burdensome. In response to a query about the advantages or disadvantages of the classifications, the Strategic Manager Pensions & Treasury explained that to remain as retail classification would limit the transactions that the Council could enter into.
2. In response to a further query the Strategic Manager Pensions & Treasury stated that discussions had taken place with Arlingclose regarding risks around world events and in the current uncertain scenario, UK date are expected to remain low. Arlingclose also expected interest rates to remain low over the medium/long term.
3. It was confirmed that the Treasury Management Strategy would be presented to the Committee in February 2017.
4. That Chairman stated that he had voiced concerns regarding short term borrowing which was a discussion for the future.

Actions/ further information to be provided:

That the Treasury Strategy be put on the Committee workplan for February 2017.

Resolved:

To note the Treasury Management Half Year Report for 2016/17.

72/16 INTERNAL AUDIT HALF-YEAR REPORT [Item 12]**Declarations of interest:**

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and explained that a formal follow-up on Foster Care would come back to this Committee.
2. There was some discussion around concerns that some internal problems were not being picked up before they came to the attention of outside agencies like Ofsted. One Member also raised concern about the level of cuts to back office staff.
3. With regards to youth services the Chief Internal Auditor reported that the Council Overview Board (COB) had requested that two reviews were undertaken; the first focussed on financial controls and the other on other areas.
4. In response to a query about the Council's responsibility regarding HIV services the Chief Internal Auditor reported that she had been advised the Council had a statutory responsibility to provide open access to sexual services i.e. signposting. The service provided by the Terrence Higgins Trust was not part of the statutory service but was greatly valued. Difficulties may arise if some Clinical Commissioning Groups (CCGs) decide not to fund this service. Statutory responsibilities were provided by the Council's internal team.
5. In response to a query about raising the issue of inequity of CCGs with Members of Parliament (MPs) another member responded that this should be raised with the Cabinet Member and Health Scrutiny Chairman.
6. The Chief Internal Auditor reported that because no reassurance had been received that all 2015/16 monies had been received, Operation Horizon was continued to marked as red. There was some discussion whether there was the resources to do the expected monitoring. The Chief Internal Auditor was requested to enquire about this and ask for details on how they expected to cope in the future.
7. The Chief Internal Auditor explained that a follow-up audit on Trust Funds was taking place now.

Actions/ further information to be provided:

The Chief Internal Auditor was requested to enquire about the resources to do the expected monitoring for Operation Horizon. (Tracker A13/16)

Resolved:

The Committee noted the report.

73/16 COMPLETED INTERNAL AUDIT REPORTS [Item 13]**Declarations of interest:**

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor
Tim Semken, Lead Auditor

Kirsty Malak, Commissioning Lead for Home Based Care (HBC)
 Revinder Hothi, Senior Auditor
 Ian Lyall, Senior Procurement Officer

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report stating there had been 12 audits completed and of those two had been ranked effective and another two as needing significant improvement. She also reported that Economic Prosperity, Environment and Highways Board would be receiving a report on civic parking enforcement to its meeting on 8 December.
2. Members discussed the issue of boroughs and districts not passing on their end of year statements to parking enforcement and the lack of enforcing deadlines. The Chairman agreed to write to the Chief Executive regarding the Committee's concerns on this matter.
3. The Commissioning Lead for HBC explained that the audit was being taken very seriously by officers and work had started on the actions. The service was going out to tender for a new HBC contract and would feed any comments from Committee into that.
4. A Member queried to the lost of £445k by not invoking policies and asked if this was a case of officers not doing their job properly to which the Senior Auditor replied that the issue related to service monitoring and not the service provided by carers. There was evidence that guidance had been drafted but no evidence that guidance had been sent to providers.
5. In response to a query regarding claiming back the lost £445k the Commissioning Lead reported that there were eight strategic providers and all had submitted Key Performance Indicator (KPI) data. There had been an internal decision to change the way in which KPIs were collected so it was felt that providers shouldn't be penalised for that.
6. In response to a query about the new HBC contract the Senior Procurement Officer explained that the current contract expires in September 2017 and that specifications were being reviewed with an aim to introduce more flexibility in the provision of care.
7. The Commissioning Lead also responded that if a provider goes bust the Council would be responsible for care which would be picked up by the localities teams.

Actions/ further information to be provided:

Chairman to write to the Chief Executive regarding the Committee's concerns on boroughs and districts not passing on their end of year statements to parking enforcement and requesting that deadlines are enforced. (Tracker A14/16)

Resolved:

The Committee noted the report.

74/16 HALF-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES APRIL - SEPTEMBER 2016 [Item 14]

Declarations of interest:

None

Witnesses:

Reem Burton, Lead Auditor
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Lead Auditor introduced the report stating that there had been 13 new investigations and that less time had been taken on them due to referring some things to others and taking on more of a support role.
2. The Lead Auditor gave further details on the Business Services figures of four thefts stating that three cases were proven, two cases for cash and the other was for theft of assets. In response to a query she stated that fraud had cost the council £586k since April 2011 and that data analytics was being used as a way forward.
3. There was some discussion regarding penalties and making public those found guilty of fraud. The Lead Auditor reported that the penalty was dependent on the value and nature of the fraud and that names were not circulated. She also reported that Government were considering have a register of people in positions of responsibility found guilty of fraud. The Chief Internal Auditor added that there had been incidents in the past whereby people had been reported to their professional bodies.

Resolved:

That the new Counter Fraud Strategy and Framework, attached at Annex A to the report was approved, and endorsed to council for inclusion in the Constitution.

75/16 RISK MANAGEMENT HALF-YEAR REPORT [Item 15]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Deputy Chief Finance Officer introduced the report and explained the updates and increased risk levels as contained in paragraphs 15 and 16 of the report.

Resolved:

1. That the Committee were satisfied with the risk management arrangements;
2. To note the Leadership risk register (Annex B) and determined that there were no matters that they wished to draw to the attention of the Chief Executive, Cabinet, Cabinet Member or appropriate scrutiny board.

76/16 GOVERNANCE UPDATE REPORT [Item 16]**Declarations of interest:**

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Committee discussed the risks involved following Brexit and some expressed surprise that this was not on the risk register. The Deputy Chief Finance Officer stated that there was increasing uncertainty in the world and it would be difficult to pin down specific risks relating to Brexit.
2. A Member expressed concerns for the future of Council Tax collection when wages were predicted to be static for the next 10 years and all costs of living going up, including Council Tax. The Deputy Chief Finance Officer responded that Council Tax collection rate was very high in Surrey and that figure would be the first to be affected if there was a problem.

Resolved:

- a) That it was satisfied with the ongoing governance work; and
- b) That there were no concerns to be referred to the Cabinet or to the relevant Cabinet Member.

77/16 DRAFT WORK PROGRAMME 2017 [Item 17]

The draft work programme for 2017 was noted.

78/16 DATE OF NEXT MEETING [Item 19]

The date of the meeting was noted.

Meeting ended at: 1.08 pm

Chairman



Audit & Governance Committee
20 February 2017

Recommendations Tracker and Information Bulletin

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker. To note the Information Bulletin.

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as Annex A, and the Committee is asked to review progress on the items listed. The January version of the Audit & Governance Committee Bulletin is attached as Annex B for information.

RECOMMENDATION:

The Committee is asked to:

1. Monitor progress on the implementation of recommendations from previous meetings in Annex A.
2. To note the information bulletin.

REPORT CONTACT: Angela Guest, Regulatory Committee Manager
020 8541 9075
angela.guest@surreycc.gov.uk

Sources/background papers: None

This page is intentionally left blank

Audit & Governance Committee Recommendations Tracking

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A11/16	5/12/16	Babcock 4S – directors report & financial statement	The Chairman to write a letter to the cabinet member for business services and resident experience regarding the committee's concerns	Chairman	Letter posted 16 January 2017
A13/16	5/12/16	Internal Audit half year report	The chief internal auditor was requested to enquire about the resources to do the expected monitoring for operation horizon.	Chief Internal Auditor	Internal Audit is currently looking into this as part of a current audit in the highways service area and will provide an update for this committee in time for its meeting in March 2017.
A14/16	5/12/16	Completed Internal Audit reports	Chairman to write to the Chief Executive regarding the committee's concerns on boroughs and districts not passing on their end of year statements to parking enforcement and requesting that deadlines are enforced.	Chairman	Letter posted 16/01/2017 Response received from Chief Executive 24/1/2017 - <i>'It is confirmed that the Parking Strategy & Implementation Manager emailed district and borough Parking Managers in November, outlining the requirement for audit verification and reinforcing the agreed timescales. This requirement was subsequently shared with the Surrey Treasurers Group to ensure Heads of Finance were also aware. A follow up audit in 2017/18 will test compliance with this. It is further advised that the Economic Prosperity, Environment and Highways Board considered the findings of this audit at the December meeting and were satisfied with the management action in place.'</i>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A8/16 Merged A20/15 A43/15 -Dec 2016	28/05/15 07/12/15	Completed Internal Audit Reports Internal Audit Half Year Report 2915/16	record keeping for accounts relating to individuals' care charges be moved from Adult Social Care to Business Services. management response to an Internal Audit recommendation regarding outstanding financial assessments.	Chairman	An Annual Report was to go to the SCS Board in June 2016. Work had been undertaken to identify areas that were slowing up the collection process. These areas were being worked on and communication between the different teams of staff involved was being improved. The 'annual report' (reports regarding the IT system and debt collection) due to go to SCS Board in June has been delayed until October due to changes in agenda setting of the Board. Toni Carney to be invited to Dec meeting to give progress report. Members from Audit & Governance Committee were invited to attend the Social Care Services Board on 26 October to take part in discussions on this item. Denis Fuller and Tim Hall attended as did Saj Hussain who is a member of SCSB.
A3/16	26/09/16	Statutory Responsibilities Network	The Ofsted monitoring report on Children's Services to be circulated to Audit Committee members once published.	Chief Executive/ Committee Manager	Ofsted are visiting on 11 and 12 January for a monitoring visit to review our improvement progress. They will be specifically focussed on reviewing our progress with regard to CSE, missing and the care Leavers service. They will publish their findings on their website.
Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A18/15	09/04/15	SEND Strategy	Assistant Director for Schools and Learning to share a summary work programme for developing the SEND Strategy with the committee.	Assistant Director for Schools and Learning	<p>On 27 July 2015 -an officer had been seconded to lead on the development of the SEND Strategy.</p> <p>on 22 February 2016 an email to Committee Members from the Chairman of the Education & Skills Board outlining the Board's proposals for its review of the SEND Strategy. This was on the Education Skills Board agenda for 24 March 2016.</p> <p>SEND Strategy 2020 and development plan agreed and published.</p> <p>A formal multi-board group set up to monitor the four workstreams of the plan. The Boards involved will be SCS, ESB and REB. The Education & Skills Board and the Social Care Services Board and the Wellbeing & health Scrutiny Board have submitted a task group scoping document to COB for approval at its September meeting.</p> <p>At the July meeting of A&G it was agreed to keep this on the tracker and to monitor the four workstreams of the multi board. The first meeting of the multi-Board task group takes place on 15 December 2016.</p> <p>5/12/16 – A&G agreed to keep this on the tracker in order to inform the post-election members.</p>

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A2/16	22/2/16	2014/15 Audit Findings Report for Surrey Choices	That a financial expert from the Council be appointed to serve on each of the boards of the Council's trading companies in a non-executive capacity.	Director of Finance	At the 11 April 2016 Committee meeting the Director of Finance explained that it was not appropriate for her staff to provide the financial expertise on the Council's trading companies. That it was vital that each had the right financial capacity and her staff were not necessarily skilled in commercial business accounting. At the May A&G meeting Members continued to have concerns and agreed the Chairman would speak with Director of Finance outside of meeting. At the July A&G the Members were still not assured.
A9/16	5/12/16	PAMS update	That the deputy chief finance officer and chief property officer look into and consider the use of PAMS for the Halsey Garton properties		Email sent to members 9/1/17
A10/16	5/12/16	PAMS update	That details of the current management details of Halsey Garton be sent to committee members following the meeting.		Email sent to members 9/1/17
A7/16	26/09/16	Completed internal audit reports (PAMS)	To provide committee members with an informal update on the overseeing of PAMS	Cabinet Member for Business Services	An update report is on A&G agenda for December.
A6/16	26/09/16	Completed internal audit reports (PAMS)	To provide a response on whether there was still a partnership with Hampshire CC	Chief Internal Auditor	Hampshire County Council (HCC) and SCC signed an original contract to jointly implement PAMS. However, SCC has progressed further in implementing PAMS than HCC. SCC still works in partnership on any developments of the system that are required and there is another 18 months remaining before the contract ends.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A5/16	26/09/16	Completed internal audit reports	Adult social care IT follow up report to this committee early 2017.	Chief Internal Auditor	Having conducted two Internal Audit reviews of this IT project since February 2015, it is proposed that any further audit activity in this area is postponed until the system is fully implemented/operational. As such an audit of this system will be considered as part of the audit planning process for 2017/18.
A12/16	5/12/16	Babcock 4S – directors report & financial statement	Committee manager to resend Babcock sales pack to Mr Barker.	Committee Manager	Sent 11 Jan 2017

This page is intentionally left blank

Audit & Governance Committee

Welcome...

Welcome to the Audit & Governance Committee Bulletin.
The purpose of this bulletin is to keep Members and officers up to date with local and national issues relevant to the Audit & Governance Committee.

Contents	Page No.
1. Internal Audit update	1
2. Further Information	2
3. Updates from other committees	3
4. Upcoming	4
5. Committee Contact Details	4

Internal Audit update

Current Audits	<p>The following audits are currently in progress or at the planning stage:</p> <ul style="list-style-type: none"> • Risk Management • Financial Assessments & Benefits • Social Media • Open Up Security Programme • Acceptable Use Policy (IT) • Organisational Ethics • Stop Smoking • Better Care Fund (Commissioning and Delivery) <p>Members are encouraged to contact either Simon White (simon.white@surreycc.gov.uk) or David John (david.john@surreycc.gov.uk) if they have insight they wish to contribute to the above audit reviews.</p>
Counter Fraud Work	<p><u>Counter Fraud Strategy</u> – The updated strategy approved by Audit and Governance Committee in December 2016 is due to go to Council in February for inclusion within the Constitution.</p> <p><u>Surrey Counter Fraud Partnership (SCFP)</u> - The SCFP is planning a Single Person Discount Review with all 11 Districts & Boroughs in April 2017. The review will use data matching to identify people who may be wrongly claiming a discount on their council tax. Based on national reduction rates of 4% the exercise is forecast to produce an additional</p>

	<p>£2m in council tax payments to the council.</p> <p><u>National Fraud Initiative (NFI)</u> – the results of the Cabinet Office's NFI exercise are due to be received in January 2017.</p>
Orbis Partnership	We have recently held a successful joint workshop with our Internal Audit partners at East Sussex and Brighton. The day was an informative session briefing staff on our new ways of working and saw the launch of new format working papers and audit reports. These are currently being piloted and will come into effect from the new audit year and will help to promote the brand of Orbis IA with all of our clients and stakeholders.
Internal Audit Plan 2017/18	The Internal Audit team is currently meeting with key officers across all key service areas to consider areas for possible inclusion in the 2017/18 Internal Audit Plan. The Chief Internal Auditor is also seeking input from key members including all members of the Audit and Governance Committee. The draft plan will be presented to the Audit and Governance Committee for approval on 27 March 2017.
Staffing News	<p>We are pleased to congratulate a number of staff who have recently achieved professional success – Tim Semken has passed his Certified Information Systems Auditor exams and Revinder Hothi who has now passed her final exam to become a Chartered Internal Auditor.</p> <p>It is also with great sadness that we say goodbye to Sue Lewry-Jones and wish her all the best for her retirement. Sue has been with Surrey for 11 years and has contributed much in her time as Head of Internal Audit.</p>

Further information

Local Government Association	<p>Public Sector Audit Appointments (PSAA): 'Opt-in' Invitations</p> <p>More than 220 authorities have now opted in to PSAA's national scheme for appointing auditors. It is expected that the vast majority of councils will sign up but please note the deadline is 9 March 2017. Alternatively, councils can establish an independent auditor panel or make joint arrangements with another body but this could be burdensome and costly. More information is available on PSAA's website.</p>
Local Government Association	<p>Fraud Awareness Workshops for Councillors</p> <p>6 February - London, 15 February - Bristol, 23 February - Salford, 27 February - London.</p> <p>With protecting the public purse never more important than it is now, the LGA and CIPFA in collaboration are running a series of free fraud awareness workshops for elected members.</p>
ADSO Newsletter	<p>Local Government Finance Bill</p> <p>A Bill To Make provision about non-domestic rating in England; to</p>

	<p>amend Chapter 4ZA of Part 1 of the Local Government Finance Act 1992; to confer power on the Greater London Authority and certain local authorities in England to impose levies on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development; to confer power on certain local authorities in England to impose a levy on persons with certain property interests in a business improvement district to finance projects to be carried out in the district; and for connected purposes.</p> <p>http://services.parliament.uk/bills/2016-17/localgovernmentfinance.html</p> <p>Link to Bill:- http://www.publications.parliament.uk/pa/bills/cbill/2016-2017/0122/cbill_2016-20170122_en_1.htm</p> <p>Link to Explanatory Notes:- http://www.publications.parliament.uk/pa/bills/cbill/2016-2017/0122/en/17122en01.htm</p>
--	--

Finance Update

Treasury	TO FOLLOW.
Strategy	For noting

Updates from other Committees

Listed below are a number of committee reports that may be of interest to the Committee, as they cross into the Committee’s remit or they relate to matters recently discussed at Audit & Governance Committee, or that the Committee have shown an interest in:

Cabinet	<p>At its meeting on 22 November 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • SCSB report regarding Adult Social Care Funding • Re-commissioning Short Breaks for Disabled Children • Schools and High Needs Funding 2017/18 • Sub National Transport Body <p>At its meeting on 13 December 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Developing a Single Waste Approach • Investment of Programme funding to extend Superfast Broadband infrastructure to Surrey premises. • Supporting Economic Growth Through Investment in Transport and Highways Infrastructure - Schemes for Staines and Leatherhead
Council Overview Board	<p>At its meeting on 3 November 2016, the Council Overview Board considered the following reports:</p> <ul style="list-style-type: none"> • 12 Month Review of ORBIS

	At its meeting on 4 December 2016, the Council Overview Board considered the following reports: <ul style="list-style-type: none"> • Agency Staffing Update
Education and Skills Board	At its meeting on 24 November 2016 , the Education and Skills Board considered the following reports: <ul style="list-style-type: none"> • Henrietta Parker Trust Update • SEND Transport
Economic Prosperity, Environment and Highways Board	At its meeting on 8 December 2016 , the Economic Prosperity, Environment and Highways Board considered the following reports: <ul style="list-style-type: none"> • Civil Parking Enforcement (Agency Agreements) 2016/17 • Community Infrastructure Levy Progress Report
Surrey Pension Fund Committee	At its meeting on 11 November 2016 , the Surrey Pension Fund Committee considered the following reports: <ul style="list-style-type: none"> • Breaches Policy • Revised Statement Of Investment Principles • Share Voting

Upcoming

The next meeting of the Audit & Governance Committee is on 20 February 2017. The following items are on the agenda:

- Ethical Standards - Annual Review
- Statutory Responsibilities Network
- Treasury Strategy
- External Audit - Audit Findings Report Surrey Choices
- Minimum Revenue Provision Accounting Policy Change
- Review of Effectiveness of Internal Audit 2016/17

Committee Contacts

Stuart Selleck - Committee Chairman
Phone: 020 7196 5894
stuart.selleck@surreycc.gov.uk

Angela Guest – Committee Manager
Phone: 020 8541 9075
angela.guest@surreycc.gov.uk



**Audit & Governance Committee
20 February 2017**

ETHICAL STANDARDS ANNUAL REVIEW

Purpose of the report:

To enable the Committee to monitor the operation of the Members' Code of Conduct and to consider recommendations from the Monitoring officer about ethical standards training to be offered to new and returning Members after the council elections in May.

Recommendations:

1. That the Monitoring Officer provides training and guidance to new and returning members as outlined in paragraph 17 of this report.
2. The Committee notes the Monitoring Officer's report on recent activity in relation to the Code of Conduct and complaints made in relation to member conduct

Introduction:

3. The Localism Act 2011 places the Council under a statutory duty to promote and maintain high standards of conduct by its members and co-opted members
4. The Council has a Code of Conduct governing elected and co-opted members' conduct, when acting in those capacities. The council's code of conduct, viewed as a whole is consistent with the following seven principles:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership

The Code also includes provisions for the registration and disclosure of pecuniary and other interests.

5. The Act also requires the Council to appoint "at least one independent person" whose views must be sought after an investigation into a complaint has been conducted and before a decision on it is made. It also allows members who have had

an allegation made against them to seek the views of the Independent Person if they wish.

6. The Council has delegated to the Audit and Governance Committee the roles of:
 - monitoring the operation of the Members' Code of Conduct and;
 - promoting advice guidance and training on matters relating to the Code of Conduct.
7. The Committee is also responsible for granting dispensations to members relating to their disclosable pecuniary interests.

The Code of Conduct

8. At the Council meeting of 17 July 2012 members agreed that they wanted to adopt a simple, high level code. The current Members' Code of Conduct is based on the Department of Communities and Local Government ("DCLG") "illustrative" text of a code of conduct for members. The Code is linked to other Council protocols, including the Member/ Officer Protocol. There have been no revisions to the Code of Conduct.

Independent Person

9. The Act requires the appointment of at least once independent person who cannot be a councillor, officer or a relative or friend of any one of them. Mr Bernard Quoroll was appointed by Council for a term of four years from December 2016. Mr Quoroll had more than 30 years in public service (during which he was consecutively, the chief executive of a large district council, a London borough and a unitary county), he worked as a consultant and mediator and was for eight years a member of the Administrative Justice and Tribunals Council, an arms length body, sponsored by the Ministry of Justice which supervised the tribunal system in England and Wales, including ombudsmen and other complaint handlers. Most recently he has completed an MA at University College London in Legal and Political Theory with a dissertation on governance and integrity in public life.

Arrangements for receiving and handling complaints

10. The Act requires the Council to adopt arrangements for dealing with complaints of a breach of the Members' Code of Conduct. Any such complaints must be dealt with in accordance with those arrangements. Before any final decision is reached on a complaint that has been investigated, the Independent Person's views must be sought. SCC's arrangements are designed to promote informal resolution rather than an adversarial approach, the latter tends to result in long and expensive investigations, some of which have been disproportionate to the seriousness of the complaint.

Register of Interests

11. In July 2016 Council agreed to widen the registration requirement of its members to include a new category of significant personal interests and to include a new requirement to declare prejudicial interests in addition to disclosable pecuniary interests and significant personal interest at meetings of the council and its committees.

12. All members are now required to notify the Monitoring Officer, within 28 days of taking office of two categories of interest: Firstly, any disclosable pecuniary interests they have (including those of a spouse, civil partner or someone with whom the member is living as husband and wife or as civil partner) and secondly any of their own significant personal interests. The Council's register is published on line in accordance with legal requirements
13. Elected member's entries on the Register of Interests are accessible on their individual page on the Council's website. Co-opted members have also registered their interests. These are not available on the Council's website, but can be inspected at the Council's offices.
14. Whilst the Council's register shows a complete set of disclosable pecuniary interest entries, members have been slow to respond to the new registration requirement. Steps taken to provide guidance, information and reminders are set out below but to date only 39 of the council's members have provided the further information they are required to register.

Training and Guidance for Members

15. Refresher training sessions about interests for members took place on 14 December 2015 and 1 February 2016 were well attended
16. Following the changed registration responsibilities guidance was issued about the changes. Revised guidance on registering gifts and hospitality was also issued. Both documents sent to all members on 27 September 2016 and are appended to this report. Since then reminders to register have been issued through the political assistants and an all member reminder is being issued in the run up to the election.
17. It is proposed to offer training sessions for all members, including co-opted members on the operation of the Code of Conduct, registering interests and arrangements for dealing with complaints as part of the induction programme in the early summer. It is proposed to offer two training sessions at County Hall and some sessions for local committees or joint training for neighbouring local committees. This model worked well in 2013.

Code of Conduct Complaints

18. The spreadsheet appended to this report shows the number of complaints received since the beginning of 2016. There have been no complaints alleging that a Member has failed to disclose or declare a pecuniary interest (this being a breach of the code which could result in criminal prosecution of the Member). The number of complaints received is comparable with previous years.
19. The most common complaint is that a member has delayed or failed to answer correspondence. This has generated 6 complaints, with no member receiving more than one complaint about this.
20. A number of the complainants wish to seek redress in connection with their dissatisfaction about the way a member has personally dealt with them. Under the previous national Code of Conduct such complaints may have required further action if they could have amounted to "failure to treat with respect". The Council took a decision not to introduce a similar provision into the local code it adopted in 2012. It would also appear that some complaints may be triggered by policy decisions which the complainant perceives as impacting unfavourably on them.

21. Two complaints have progressed to investigation in the period. One of these has resulted in a finding of no breach and is not being progressed to a member conduct panel and one has resulted in an investigation report finding a breach, this will be heard by a member conduct panel in March

Risk Management Implications

22. The Council's Code of Conduct, Register of Interests and arrangements for dealing with complaints are statutory requirements and key elements of good governance. A lack of an appropriate Code of Conduct and/or robust and objective procedures for handling complaints could diminish public confidence in members' transparency about their personal interests and in decisions being taken solely in the public interest. An unduly onerous or complicated Code or procedures for handling complaints would diminish Member confidence in a fair approach and could hinder their decision making. Guidance and training is intended to assist Members in observing the Code and so mitigate the risk of complaints about Members.

Financial and value for money implications

23. An external investigation of a complaint costs in the region of £5,000. In the last year one investigation was dealt with by an external investigator.

Equalities and Diversity Implications

24. There are no obvious equalities and diversity implications to which the Committee needs to pay due regard.

Appendices

- a) Guidance for Members on Registering Interests
- b) Guidance for Members on Gifts and Hospitality
- c) Member conduct complaints

Next steps:

The Monitoring Officer will report any recommendations from this Committee to the Member Conduct Panel and will keep the Independent Person informed

Report contact: Ann Charlton, Monitoring Officer and Director of Legal and Democratic Services

Contact details: 0208 541 9001 / ann.charlton@surreycc.gov.uk

GUIDANCE FOR MEMBERS: REGISTERING INTERESTS

1. What should I register and declare?

1.1 Disclosable Pecuniary Interests

You have a disclosable pecuniary interest where you or your partner (which means spouse or civil partner, a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners) hold an interest as set out within the descriptions at Annex 1. Such interests must be included on your register (see paragraph 2 below)

1.2 Significant Personal Interests

In addition to your disclosable pecuniary interests, you have a significant personal interest where you hold a position of general control or management in any organisation operating in Surrey, even if you were appointed or nominated to that organisation by the Council. This includes public and voluntary sector organisations, such as other councils, schools, charities and some companies. It also includes political parties and campaigning groups. Such interests must be included on your register (see paragraph 2 below)

1.3 Prejudicial Interests

You have a prejudicial interest if that interest is so significant that a member of the public who knew the relevant facts would reasonably think that your interest would prejudice your judgement of the public interest and that participating in any council business that affected or related to the interest would prevent you complying with the Seven Principles of Public Life or the requirements of this Council's Code of Conduct, in particular those requirements that:

- a) You must act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate; and/or
- b) When carrying out your public duties you must make all choices, such as making public appointments, awarding contracts or recommending individuals for rewards or benefits, on merit and must be impartial and seen to be impartial.

2. When and how do I register my interests?

- 2.1 You must, within 28 days of taking office as a member or co-opted member, notify the Council's Monitoring Officer of your disclosable pecuniary interests and significant personal interests. Each Member's Register of Interests is published on the Surrey County Council website and is available for public inspection.
- 2.2 You are advised to notify the Monitoring Officer promptly of any changes occurring to your interests while you remain in office so that your register is kept up to date.
- 2.3 If, at a meeting of the Council, the Cabinet, a committee/board, sub-committee or joint committee of the Council, you are required to declare a disclosable pecuniary interest, or a significant personal interest that is not already recorded on the Register, you must also separately notify the Monitoring Officer of that interest within 28 days of the date of disclosure.
- 2.4 There is no separate register of prejudicial interests. All disclosable pecuniary interests are regarded as prejudicial interests and some significant personal interests will also be regarded as prejudicial interests. You may also have other interests, which you are not required to put on any register, but which are so significant that they would be prejudicial interests if they arose during council business in which you were participating.
- 2.5 Members are able to access their own published register to make amendments electronically and are invited to contact Democratic Services if they need assistance in doing so.

3. What happens if I don't register or declare my interests?

3.1 Disclosable Pecuniary Interests:

You should be aware that it is a criminal offence if, without reasonable excuse, you

- a) Fail to disclose a disclosable pecuniary interest;
- b) Participate in any discussion or vote on a matter in which you have a disclosable pecuniary interest;
- c) Take any steps as a single member discharging a function of the Council when you have a disclosable pecuniary interest in a matter you are dealing with;
- d) Provide information in relation to your disclosable pecuniary interests that is false or misleading and you know that the information is false or misleading, or are reckless as to whether the information is true and not misleading.

3.2 Significant Personal Interests:

The Council is committed to promoting and maintaining high standards of conduct among its Members and has adopted a Code of Conduct that specifies the conduct expected of its Members and Co-opted Members as they carry out that role. Failure to declare and register significant personal interests could mean that you have not complied with the Code of Conduct and could lead to a formal investigation, as set out in Part 6 of the Constitution.

3.3 Prejudicial Interests

The Council's Code of Conduct specifies the conduct expected of its Members and Co-opted Members as they carry out that role. This includes requirements for you to act solely in the public interest and never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate. It also requires that when carrying out your public duties you must make all choices, such as making public appointments, awarding contracts or recommending individuals for rewards or benefits, on merit and must be impartial and seen to be impartial.

3.4 You must therefore be vigilant and identify occasions when there is a potential conflict between (1) Council business and your duty to the Surrey public and (2) relationships and duties you have outside of the Council, which may or may not be recorded in the registers of interest maintained by the Council.

3.5 Failure to appropriately declare and act on prejudicial interests would mean that you have not complied with the Code of Conduct and may have committed a criminal offence (see 3.1 and 3.2 above). It may also leave a council decision in which you have participated open to legal challenge.

4. If I have an interest, can I participate in meetings?

Disclosable Pecuniary Interests:

4.1 If you are present at a meeting of the Council, the Cabinet, a committee/board, sub-committee or joint committee of the Council, and you have a disclosable pecuniary interest in any matter to be considered or being considered at the meeting, unless you have obtained a dispensation (see paragraph 5 below), the following apply:

- 1) You must not participate in any discussion of, or any vote taken on, the matter at the meeting and you must leave the room where the meeting is held while any discussion or voting takes place;

- 2) You should either declare the interest to the meeting or notify the Chairman of the reason why you are intending to withdraw before you leave the meeting. If the interest is not already on your Register, you must disclose the existence and nature of the interest at the meeting.
- 4.2 If you are discharging a function of the Council as a member acting alone (eg as a Cabinet Member) and you become aware of a disclosable pecuniary interest in a matter being dealt with or to be dealt with by you:
- 1) You must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter;
 - 2) If the interest is not registered, you must disclose the existence and nature of the interest at the meeting.

Significant Personal Interests:

- 4.3 Where you have a significant personal interest in any matter to be considered or being considered at a meeting of the Council, the Cabinet, a committee/board, sub-committee or joint committee of the Council and you speak at the meeting, you must disclose to that meeting the existence and nature of that interest unless the chairman of the meeting rules it unnecessary.
- 4.4 You can participate in any discussion and vote on any matter in which you have a significant personal interest unless you consider, having taken advice from the Monitoring Officer where relevant, that the interest is one that would reasonably be regarded as prejudicial, in which case you should withdraw from the room or chamber when it becomes apparent that the matter is being considered at that meeting.
- 4.5 If you are discharging a function of the Council as a member acting alone (eg as a Cabinet Member) you will need to consider whether you have a significant personal interest in any matter you are dealing with, in the course of discharging that function. If you do have such an interest you must ensure that a record of the existence and nature of the interest is recorded in the minutes of the meeting.
- 4.6 If, having taken advice from the Monitoring Officer where relevant, you consider that the interest is one that would reasonably be regarded as prejudicial and, therefore, inappropriate for you to continue to take any steps in relation to the matter, you should not do so (except for the purpose of enabling the matter to be dealt with by someone else).

Prejudicial Interests:

- 4.7 You must not participate in any business of the Council in which you have a prejudicial interest. If you are present at a meeting of the

Council, the Cabinet, a committee/board, sub-committee or joint committee of the Council, and you have a prejudicial interest in any matter to be considered or being considered at the meeting, you, or the chairman of the meeting, should declare that you have an interest in the matter. You must not participate in any discussion of, or any vote taken on, the matter at the meeting and you must leave the room where the meeting is held while any discussion or voting takes place.

5. Dispensations

- 5.1 The Council's Audit and Governance Committee may grant you a dispensation to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest but only in limited circumstances. Guidance on how to apply for a dispensation and the criteria that will be used to consider your request is available in Part 6 of the Constitution.

6. Where can I go for further advice?

- 6.1 The Monitoring Officer, the Deputy Monitoring Officers, and the Democratic Services Lead Manager are always happy to give advice on any of these issues and you are urged to seek advice if you are unclear about whether and how to register and declare any interests.

Descriptions of disclosable pecuniary interests (DPIs):

Subject	Prescribed description	Note
<i>Employment, office, trade, profession or vocation</i>	<i>Any employment, office, trade, profession or vocation carried on for profit or gain.</i>	<i>This DPI is about how you and your partner make a living. You must declare your and your partner's employment, business or other source of earned income.</i>
<i>Sponsorship</i>	<i>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M.</i> <i>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</i>	<i>This DPI is about any financial support you have received or continue to receive for being a councillor.</i> <i>You must declare election expenses if you are a member of a political party that pays these.</i>
<i>Contracts</i>	<i>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</i> <i>(a) under which goods or services are to be provided or works are to be executed; and</i> <i>(b) which has not been fully discharged.</i>	<i>If you or your partner have any contracts with SCC or you are an owner or part owner of a business which has SCC contracts you must declare this here. If the contract is completed (ie no more services or payments arising) you do not need to include it.</i>
<i>Land</i>	<i>Any beneficial interest in land which is within the area of the relevant authority.</i>	<i>This is where you must declare any property that you or your partner own in the administrative area of the County. If land is held on trust for either of you it should be included in the declaration. It includes both freehold and leased land, including your home if you are a home owner.</i>
<i>Licences</i>	<i>Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.</i>	<i>This is where you must declare any property in the administrative area of the County that you or your partner occupy or have the use of, with the permission of someone else, for example an allotment.</i>
<i>Corporate tenancies</i>	<i>Any tenancy where (to M's knowledge)—</i> <i>(a) the landlord is the relevant authority;</i>	<i>You must declare any properties which you or your</i>

	<i>and (b) the tenant is a body in which the relevant person has a beneficial interest.</i>	<i>partner rent from the County Council, or which is rented by a business which you or they own or partly own.</i>
<i>Securities</i>	<p><i>Any beneficial interest in securities of a body where—</i></p> <p><i>(a) that body (to M’s knowledge) has a place of business or land in the area of the relevant authority; and</i></p> <p><i>(b) either—</i></p> <p><i>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</i></p> <p><i>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</i></p>	<p><i>This DPI is about shares, bonds etc.</i></p> <p><i>Only a business that has a place of business or land in the administrative area of the county is relevant and should be declared.</i></p> <p><i>You must include your partner's interests.</i></p> <p><i>Only register share ownership that has a face value equal to or more than £25,000 (NB not the trading value). If you hold 1% or more of the total shares issued or of any class of shares you must declare it.</i></p>

These descriptions on interests are subject to the following definitions;

“the Act” means the Localism Act 2011;

“body in which the relevant person has a beneficial interest” means a firm in which the relevant person is a partner or a body corporate of which the relevant person is a director, or in the securities of which the relevant person has a beneficial interest;

“director” includes a member of the committee of management of an industrial and provident society;

“land” excludes an easement, servitude, interest or right in or over land which does not carry with it a right for the relevant person (alone or jointly with another) to occupy the land or to receive income;

“M” means a member of a relevant authority;

“member” includes a co-opted member;

“relevant authority” means the authority of which M is a member;

“relevant period” means the period of 12 months ending with the day on which M gives a notification for the purposes of section 30(1) or section 31(7), as the case may be, of the Act;

“relevant person” means M or any other person referred to in section 30(3)(b) of the Act;

“securities” means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

This page is intentionally left blank

GUIDANCE FOR MEMBERS ON GIFTS AND HOSPITALITY

What should I register?

The Members' Code of Conduct requires that a Member must, within 28 days of accepting any gift or hospitality with an estimated value of at least £100, notify the Monitoring Officer of the existence and nature of that gift or hospitality.

Gifts and hospitality include the receipt of goods or services, meals, drinks, accommodation or entertainment which is offered free or at a heavily discounted rate not generally available to the public. Gifts and/or hospitality are only relevant if they are offered to Members in their capacity as county councillors - not gifts received from friends or family on a personal basis.

How do I register my gifts and hospitality?

A form is available on request from business support within Democratic Services or to download on the [Members' Portal](#). Once completed, notification forms should be sent to the Democratic Services Lead Manager by email or hard copy. If a form is submitted in hard copy, it must be signed and dated. If the notification is submitted by email, the date should be entered on the form and a copy of the covering email will be attached to the form to act as the signature.

What happens to the information once I register a gift or hospitality?

All notification forms received will be added to the central file, held in room 122 (Democratic Services), and will be open to inspection by the public upon request. The details will also be transferred to a central electronic version of the gifts and hospitality register, held within Democratic Services on behalf of the Monitoring Officer.

At present, there are no plans to publish the gifts and hospitality register online.

Once I have registered a gift or hospitality received, do I have to do anything else?

Yes. You must declare the acceptance of any gifts or hospitality where you are involved in any discussion of, vote on, or discharge of any functions relating to the donor. Should you consider that a member of the public, knowing about the gift or hospitality, might reasonably conclude that this would be likely to prejudice your decision making in relation to the donor, you should declare an interest, not participate in the matter and leave any relevant meeting for the duration of the item. Your consideration should take into account the role you are playing in relation to the matter and the significance of the gift or hospitality,

Is there any guidance on what I can accept as a gift or hospitality?

The requirement to declare gifts and hospitality that have been offered is in addition to the principles of public life to which Members are required to adhere. As regards the appropriateness of Members receiving any particular gifts or hospitality, consideration will always need to be given to these general principles, particularly the requirement for Members not to place themselves in situations where their honesty and integrity might be questioned. You should on all occasions avoid the appearance of such behaviour. It is a criminal offence to solicit or receive any gift, reward or advantage as an inducement to doing or forbearing to do anything in respect of any transaction involving the Council. In considering whether it is appropriate to accept offers of a gift or hospitality Members will need to take account of the Council's requirement that you do not 'place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties'.

The following examples of gifts or hospitality are generally acceptable, but if they appear to be worth £100 or more **must** be registered, declared and disclosed at relevant meetings in line with the advice above. Judgment should always be carefully exercised to avoid any concerns about extravagant provision. :

- (a) attendance in an official capacity at functions to which invitations have also been sent to Members of other local authorities or at official occasions relating to County Council functions, e.g. official opening ceremonies.
- (b) attendance in an official capacity at functions arranged by other public bodies.
- (c) an invitation to take part in a company jubilee or other anniversary celebration.
- (d) a working lunch provided to allow the parties to discuss ongoing business.
- (e) attendance at an awards ceremony representing the County Council.
- (f) an invitation to participate in learning or development activities provided free of charge or for a nominal sum

In all circumstances, care should be taken when the gift or hospitality is offered by a provider who has a contract with the Council.

Any of the following facilities provided by companies or others who do business with the Council, or may wish to do so, are considered to be unacceptable offers of hospitality or gifts:

- (a) any hospitality or gift offered by a potential contractor/consultant during any tendering process - there is a need for Members to be vigilant as they may not ordinarily be aware of what potential tendering processes are going on across the Council.
- (b) any hospitality or gift offered by an applicant for planning consent.

- (c) any hospitality or gift offered by a current contractor with the Council where an arbitration or similar process is ongoing.
- (d) any hospitality or gift that could reasonably be regarded as excessive or extravagant.

Where can I go for further advice?

The Monitoring Officer, the Deputy Monitoring Officers, and the Democratic Services Lead Manager are always happy to give advice on any of these issues and you are urged to seek advice if you are unclear about whether to accept or declare any gift or hospitality received.

This page is intentionally left blank

Ref	Date complaint received	Complainant	Complaint	Progressed to	Status of complaint
Ref 01/16	19.02.2016	C1	Complainant not received a response from Member/Member took longer than expected to reply to correspondence	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
Ref02/16	16.03.2016	C2	Complainant not received a response from Member/Member took longer than expected to reply to correspondence	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
Ref 03/2016	07.04.16	C3	Complainant not received a response from Member/Member took longer than expected to reply to correspondence	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
Ref 04/2016	07.04.16	C4	Complainant alleges M had not co-operated fully with whatever scrutiny is appropriate, 2. Not been as open as possible about decisions and actions, 3. Not been prepared to give adequate reasons for decisions taken 4. Repeatedly failed to respond to correspondence	Chairman of Member Conduct Panel/IP	Investigator did not find breach. IP and Chairman of MCP to be consulted on closure
Ref 05/2016	24.05.16	C5	Complainant alleges M did not accurately record an item on Register of Interests	MO	Closed - Complaint not upheld. M had fulfilled his obligations re register of interests
Ref 06/2016	27.05.16	C6	Complainant not received a response from Member/Member took longer than expected to reply to correspondence	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
Ref 07/2016		C7	Complaint regarding behaviour of Member and bizarre email response	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
Ref 08/2016	05.06.16	C8	Complainant not received a response from Member/Member took longer than expected to reply to correspondence	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
Ref 09/2016		C9	Did not act solely in the public interest and improperly conferred an advantage.	Investigator	OPEN - Awaiting final MCP decision
Ref10/2016	19.07.16	C10	Complaint regarding a comment Councillor made on twitter	MO	Closed - complaint not upheld as not a breach of the Code of Conduct
Ref 11/2016	19.07.16		Complaint regarding a comment Councillor made on twitter	MO	Closed - complaint not upheld as not a breach of the Code of Conduct
Ref 13/16	14.09.16	C11	Complainant not received a response from Member/Member took longer than expected to reply to correspondence	MO	Closed - complaint not upheld as not a breach of the Code of Conduct
Ref 14/16	10.10.16	C12	Complaint about comments made directly to the complainant.	MO	Closed - complaint not upheld as not a breach of the Code of Conduct
Ref 15/16	01.12.16	M13	Breach not clear - complainant asked to specify	MO	Closed
	01.12.16	M14	Breach not clear - complainant asked to specify	MO	Closed

This page is intentionally left blank



Audit & Governance Committee
20 February 2017

Statutory Responsibilities Network

Purpose of the report:

To update the Audit & Governance Committee on activity of the Statutory Responsibilities Network.

Recommendations:

It is recommended that:

- i. The Audit & Governance Committee Chairman continues to meet with the Network chairman, the Chief Executive, in order to keep up-to-date with network activity.

Introduction:

- ii. As a result of the Audit & Governance Committee Effectiveness Review, the committee agreed a protocol for working with the Statutory Responsibilities Network. This report constitutes part of the agreed protocol and provides an update on the activity of the Statutory Responsibilities Network since the last report in September 2016.

What is the Statutory Responsibilities Network?

1. The Statutory Responsibilities Network (SRN) has been established since May 2014 and meets every fortnight on a Monday afternoon. It exists to bring key officers together with a focus on the Council's core legal duties.

Terms of reference

2. The purpose of SRN is to facilitate clear senior officer oversight of our major statutory and other responsibilities, which have been defined as:
 - Ensuring adults and children are safe
 - Ensuring fiduciary duty, i.e. finances are safe
 - Ensuring compliance, including with equalities duties
 - Ensuring health & safety responsibilities are met

- Ensuring highways responsibilities are met
- Ensuring the provision of sufficient school places
- Ensuring public health & wellbeing
- Ensuring organisational resilience and continuity
- Ensuring risks are identified and managed

Membership

3. SRN membership is as follows:

- David McNulty, Chief Executive Officer
- Julie Fisher, Deputy Chief Executive and Strategic Director, Children, Schools and Families
- Russell Pearson, Chief Fire Officer
- Helen Atkinson, Director of Adult Social Care and Public Health
- Sheila Little, Director of Finance
- Ann Charlton, Director of Legal, Democratic and Cultural Services
- Ken Akers, Strategic Human Resources Relationship Manager
- Sue Lewry-Jones, Chief Internal Auditor
- Yvonne Rees, Strategic Director for Customers and Communities

4. The network provides a regular forum for statutory officers to raise key issues, share knowledge and offer challenge. In response to risks, the network may choose to request further information, propose ideas or commission specific work. Where organisational inconsistencies are identified, a strategic solution is agreed, implemented and overseen.

Summary of network activity over past six months

5. Key items over the past six months include:

Improvement of Children's Services

6. The Children's Improvement Plan is a standing item for SRN meetings, allowing for constructive challenge and strategic oversight of the plan. The network has discussed ways to address the areas for improvement identified by the DFE including high caseloads and consistency of practice – for example, the social care handbook and recruitment of social workers, together with updates on the Multi Agency Safeguarding Hub (MASH).

Governance of risk, primarily financial risk

7. The leadership risk register is a standing item for SRN meetings. This allows for the regular review of existing risks and the identification of new risks. The financial outlook features as the number one risk for the organisation and the Director of Finance keeps the SRN updated on the strategic financial position of the council. The Strategic Risk Forum also continues to operate as usual.

8. Other items over the past six months:

- Oversight of the refreshed counter fraud strategy, to align with the latest guidance from CIPFA.
- Review of information governance, linking in with the Strategic Risk Forum.
- Prevent agenda, including agreement of protocols for managing terrorism risk.
- Audit findings, including the audit of the Independent Adult Safeguarding Board audit of Case Records (Children’s and Adults Safeguarding teams linked up to share working practices and learning in relation to this).
- Health and safety training for managers, including responding to emergencies.
- IMT malware threats and mitigation of these.

Protocol arrangements:

9. Performance of SRN will be managed by the Chief Executive Officer, who will continue to provide the Committee with twice yearly reports on progress. Key findings throughout the year will continue to be brought to the Committee by SRN members.

Conclusions:

10. The agreed protocol continues to ensure SRN is joined up with the Audit & Governance Committee, with measures in place to ensure the effective governance of risk.

Financial and value for money implications

11. None

Equalities and Diversity Implications

12. EIA not completed as this report is for information.

Risk Management Implications

13. The Statutory Responsibility Network plays a key role in the identification and management of risk.

Next steps:

None.

Report contact: Ellie Giffard, Executive Assistant to Chief Executive Officer.
Contact details: 020 8213 2502, ellie.giffard@surreycc.gov.uk

This page is intentionally left blank



Audit & Governance Committee
20 February 2017

Grant Thornton: 2016/17 External Audit Plan and Key Performance Indicators

Purpose of the report:

This report provides the Audit & Governance Committee with the Audit Plan and the proposed Key Performance Indicators (KPIs) for the external audit of the 2016/17 financial statements of the Council.

Recommendations:

It is recommended that the Committee approves the attached Audit Plan and the proposed Key Performance Indicators for 2016/17.

Introduction:

1. The Audit Plan (Annex 1) outlines the risks identified by Grant Thornton, the Council's external auditors, for the audit of the Council's 2016/17 financial statements and their planned response to these risks.
2. The report also outlines the interim work undertaken so far and also outlines the work the auditor will undertake as part of the Value for Money conclusion.
3. The Key Performance Indicator Report (Annex 2) details our proposed indicators covering the following areas:
 - response time
 - achievement of planned input
 - reporting arrangements
 - quality assurance.

2016/17 Financial Statement Risks:

4. The Audit Plan has identified a series of 'significant' risks and 'other' risks. These risks are not specific to Surrey County Council but are risks in existence for all Local Authority financial statements.
5. The 'significant' risks comprise:
 - 2 presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition and management override of controls

- Valuation of property, plant and equipment
 - Valuation of the pension fund liability
6. The 'other' risks comprise; operating expenditure, payroll costs and property, plant & equipment. These areas are the most numerically significant elements of the financial statements that are not otherwise addressed by the significant risks above.
7. In addition, for 2016/17 CIPFA has adopted changes which affect the presentation on the income and expenditure in the financial statements and associated disclosure notes. The report also includes these changes as an 'other risks identified'.

Value for Money Conclusion:

8. The Audit Plan summarises the auditors planned approach to the Value for Money work, and the significant risks identified. They will conduct their work with a focus on the following areas:
- Financial health
 - Arrangements in children's services following the 2014/15 Ofsted report

Proposed Key Performance Indicators:

9. The report, contained in Annex 2, confirms that:
- There are 10 indicators proposed for 2016/17
 - We have kept all the indicators from 2015/16, including the three new ones that were added.
 - A slight change has been made to one indicator to reflect feedback from the Council on the 15/16 audit.
10. The change reflects the need to receive a final list of any proposed amendments to the financial statements before the Committee deadlines. This indicators aims to reduce the need to bring amendments to the published versions included in the Committee papers.

Conclusions:

11. Following agreement with the Director of Finance, the Audit Plan is presented to this Committee for discussion and approval.
12. The Committee should consider if it agrees with the proposed KPIs for the Audit of the 2016/17 financial statements and whether it has any suggestions for changes.

Financial and value for money implications

13. There are no direct financial or value for money implications of this report.

Equalities and Diversity Implications

14. There are no direct equalities implications of this report.

Risk Management Implications

15. The Key Performance Indicators will help manage areas of risk regarding external auditing processes.

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

Contact Details: Nicola.oconnor@surreycc.gov.uk 020 8541 9263
Mobile: 07896 813764, Room G40 County Hall

This page is intentionally left blank

The Audit Plan for Surrey County Council

Year ended 31 March 2017

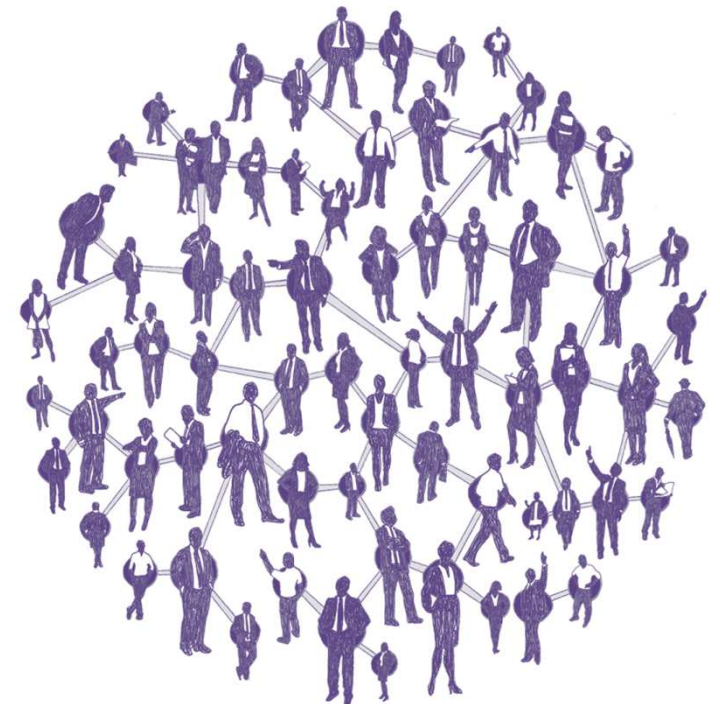
February 2017

Page 49

Andy Mack
Engagement Lead
T +44 (0)207 728 3299
E andy.l.mack@uk.gt.com

Geoffrey Banister
Audit Manager (Value for Money)
T +44 (0)207 728 3023
E geoffrey.c.banister@uk.gt.com

Bal Daffu
In-Charge Auditor
T +44 (0)207 728 3427
E bal.s.daffu@uk.gt.com





The Audit and Governance Committee
Surrey County Council
County Hall
Penrhyn Road
Kingston Upon Thames
KT1 2DN

February 2017

Dear Members of the Audit and Governance Committee

Audit Plan for Surrey County Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Surrey County Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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. 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. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Andy Mack, Engagement Lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section

Understanding your business and key developments	4
Materiality	5
Significant risks identified	6
Other risks identified	8
Group audit scope and risk assessment	11
Value for Money	12
Other audit responsibilities	15
Results of interim audit work	16
The audit cycle	17
Audit fees	18
Independence and non-audit services	19
Communication of audit matters with those charged with governance	20

Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

Integration with health sector

Wider transfers of responsibility for public health to local government, and more specifically Better Care Fund (BCF) plans and the associated pooled budgets have been operational since 2015/16.

Group accounts

Halsey Garton will be a significant component of the Group this year as they are forecasting significant investments on their Balance sheet this year. We will carry out sufficient audit work in order to give an audit opinion by 31 July 2017.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

The Council are planning a referendum proposing a 15% increase in council tax.

Saving Plans

We will monitor and discuss the Council's plans to develop its Medium Term Financial Plan in light of the significant savings that have been identified as required in future years.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The Council has been meeting this deadline for a number of years.

Our response

- We have discussed with you your progress in implementing the HNA requirements, highlighting any areas of good practice and areas for further work.
- We aim to complete all our substantive audit work of your financial statements by 18 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review the Council's progress in managing its responsibilities, as part of our work in reaching our VFM conclusion..
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £26,782k (being 1.5% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1,339k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing:

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of related party transactions in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment 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.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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 revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • 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 the Council, mean that all forms of fraud are seen as unacceptable Therefore do not consider this to be a significant risk for the Council.
Management over-ride of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we plan to address these risks.

Significant risk	Description	Audit procedures
Valuation of property, plant and equipment	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the Council.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over operating expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the year-end reconciliation of your accounts payable system to the general ledger Testing of year-end creditors and accruals Testing of post-year end payments
Employee remuneration	Employee remuneration accruals are understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over payroll expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the year-end reconciliation of your payroll system to the general ledger Trend analysis of the monthly payroll runs from during the year Other substantive testing as appropriate

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.
Property, plant and equipment	Property, plant and equipment activity not valid	<p>Work planned:</p> <ul style="list-style-type: none"> • Walkthrough of your controls in place over property, plant and equipment • Testing of a sample of additions and disposals • Review of the reconciliation of your fixed assets register to the general ledger • Testing of the depreciation charge for the year

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

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 the previous sections but will include:

Page 58

- Assets held for sale
- Cash and cash equivalents
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 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	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
S. E. Business Services Limited	No	Analytical	None	High level analytical review.
Surrey Choices Limited	No	Analytical	None	High level analytical review.
Halsey Garton Property Limited	Yes	Targeted	Valuation of investments are not correct	Detailed testing of the property investments to ensure that they are true and fairly stated in the financial statements

Page 59

Key changes within the group:

- Halsey Garton Property Limited has made significant investments during the year which are material to our audit opinion.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of the company audits will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the company audit documentation and meeting with appropriate members of management.



Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

Page 61

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 31 July 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Financial Health The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2016/17. However, following the most recent settlement, the scale of efficiencies and savings required is sizeable and the Council has decided to hold a referendum in May 2017 where it is asking electors to agree a proposed increase of 15% in the level of Council Tax. There is a risk that if the Council does not receive the mandate which it has asked for from tax payers, it will need to draw back significantly on its proposed spending programme.</p>	<p>Sustainable resource deployment</p>	<p>We propose to:</p> <ul style="list-style-type: none"> • review the Council's progress in updating its medium term financial strategy and the reports to Members • review the outturn position for 2016/17 and the budget plans for 2017/18 and 2018/19 • meet with key officers to discuss key strategic challenges and the Council's proposed response.
<p>Ofsted inspection of children's services Ofsted issued a critical report on children's services in 2014/15 and the council is currently subject to follow up review. We issued a qualified except for conclusion in 2014/15 and 2015/16. Until such time as Ofsted confirmed adequate arrangements are in place this remains a significant risk.</p>	<p>Sustainable resource deployment</p>	<p>We propose to review update reports from Ofsted as they become available and take these into account in forming our conclusion.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

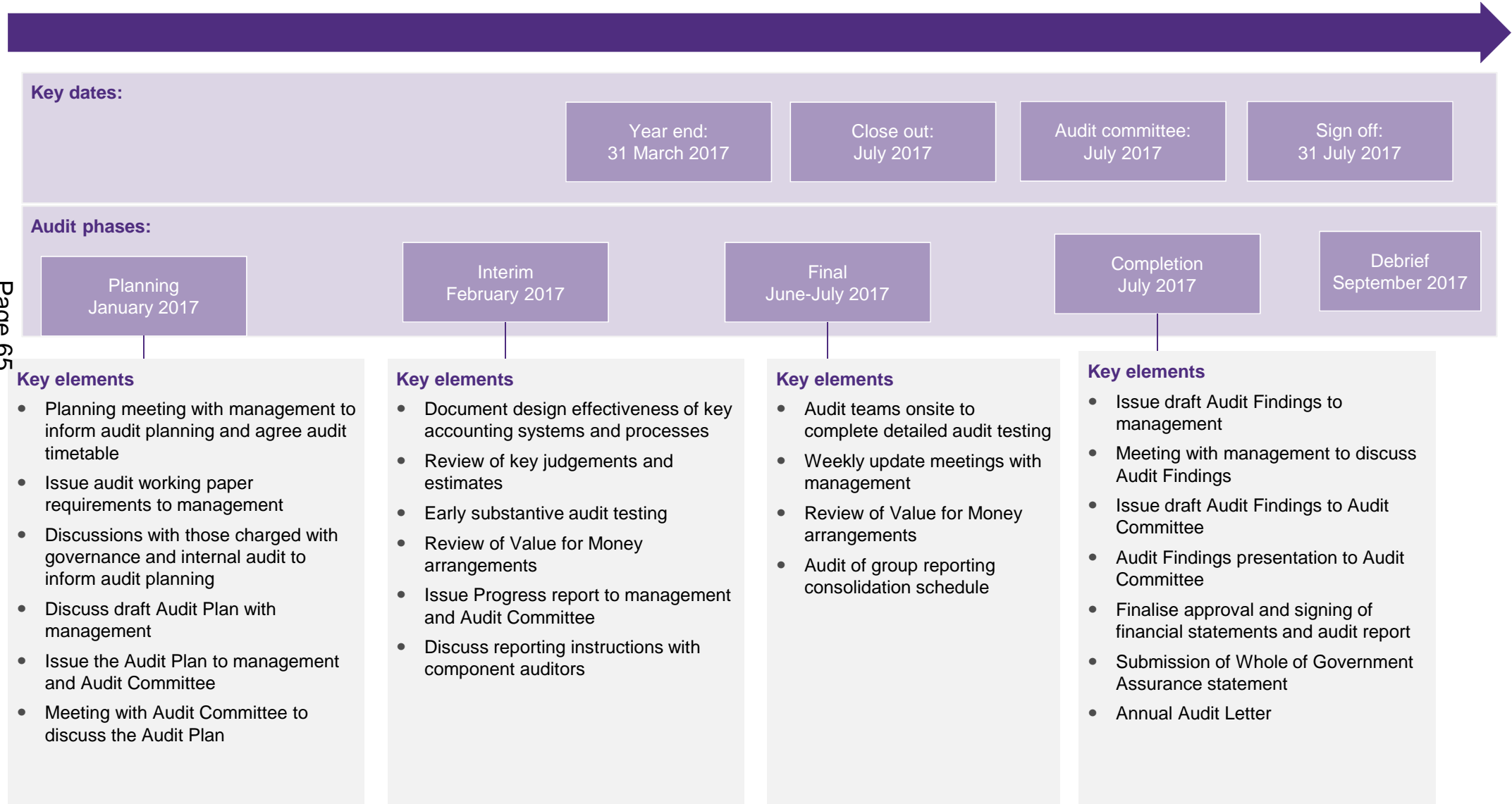
Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which impact on our audit approach.

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	142,098
S. E. Business Services Limited *	TBC
Surrey Choices Limited *	TBC
Halsey Garton Property Limited *	TBC

Page 66

* proposed fee being discussed

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

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 Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
Certification of Teachers' Pensions return	4,000	Reasonable Assurance report
Certification of Teachers' Pensions return –Surrey Choices Limited	4,000	Reasonable Assurance report
Non-audit related		
None		

Page 67

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit 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.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

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

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓



© 2016 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank

2016/17 Performance Management Framework - Surrey County Council

DRAFT

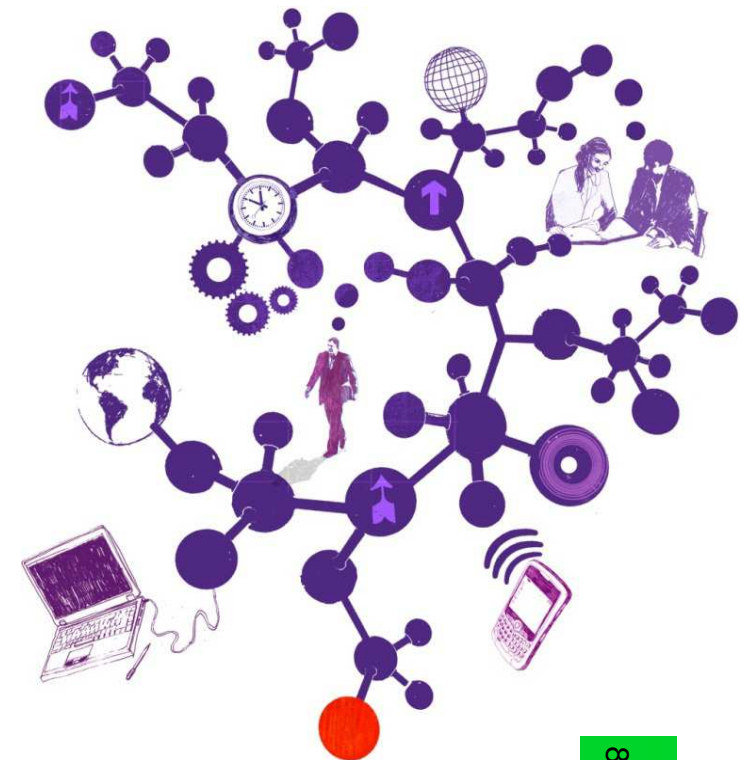
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

February 2017
Page 71

Andy Mack
Engagement Lead
T 020 7728 3299
E Andy.L.Mack@uk.gt.com

Geoffrey Banister
Engagement Manager (Value for Money)
T 020 7728 3023
E Geoffrey.C.Banister@uk.gt.com

Bal Daffu
In-Charge Auditor
T +44 (0)207 728 3427
E bal.s.daffu@uk.gt.com



Performance management framework

Performance against Key Performance Indicators (KPIs)

We set out below performance against our KPIs. The indicator's below were agreed with the Audit and Governance Committee in December 2015. We welcome any comments on the assessment below as well as on potential changes to indicators for 2016/17.

Area	Proposed service level and indicator	Target	Actual Performance – Assessment at September 2017
Response time	<ul style="list-style-type: none"> We will provide an initial response to all major enquires or requests for assistance within 5 working days, with full responses within 15 working days 	100%	
	<ul style="list-style-type: none"> We will ensure all requests for information from third parties are made as early in the audit process as possible 	100%	
Achievement of planned input	<ul style="list-style-type: none"> The total approved audit fee will not be exceeded, except by prior approval by the Director of Finance 	100%	
	<ul style="list-style-type: none"> In light of the National Audit Office's approach to Value for Money, we will agree in advance the areas of focus in 2016/17 with the Director of Finance 	100%	

Performance management framework (continued)

Area	Proposed service level and indicator	Target	Actual Performance – Assessment at September 2017
Achievement of planned input	<ul style="list-style-type: none"> We will provide monthly updates on audit progress to the Deputy Chief Finance Officer and principal accountant and, during the final accounts process, meet weekly to discuss emerging issues and agree our approach to tackling them 	100%	.
Reporting arrangements	<ul style="list-style-type: none"> We will ensure that reports are made available to Audit and Governance Committee members 7 working days before the Audit and Governance Committee meeting We will provide a final list of any proposed amendments to the financial statements before the relevant Audit and Governance Committee reports deadline We will report progress against recommendations previously raised to each Audit and Governance Committee, and by exception, the effectiveness of any remedial action taken 	100% 100% 100%	



Performance management framework (continued)

Area	Proposed service level and indicator	Target	Actual Performance – Assessment at September 2017
Quality assurance	<ul style="list-style-type: none"> We will report to the Audit and Governance Committee the results of any internal or external quality reviews of Grant Thornton Client satisfaction score (people indicating how satisfied they are with their audit service on a scale of 0 – 10 where 10 is very satisfied) 	100% 9 or above	



© 2017 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This page is intentionally left blank



Audit & Governance Committee
20 February 2017

2015/16 Audit Findings Report for Surrey Choices Ltd

Purpose of the report:

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2015/16 financial statements of Surrey Choices Ltd.

Recommendations:

That the Committee consider the contents of the 2015/16 Audit Findings Report for Surrey Choices Ltd.

Introduction:

1. The Council has 3 wholly owned Local Authority Trading Companies:
 - Surrey Choices Ltd
 - S E Business Services Ltd
 - Halsey Garton Ltd
2. This report provides the outcome and findings of the external audit of the 2015/16 financial statements of Surrey Choices. The reports for both S. E. Business Services Ltd and Halsey Garton Ltd. Came to this Committee for consideration in December 2016.

Audit Findings:

3. The Directors of the companies approved the 2015/16 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2016 and its profit for the year then ended. The accounts are attached at Annex 1.
4. The Audit Findings Report, Annex 2, summarises the findings of the 2015/16 audit. The reports set out a summary of the work carried out during the audit of the financial statements and the conclusions reached.

5. At the beginning of the audit an Audit Plan was shared with the company directors, which identified areas of significant risk and other risks of material misstatement. The Audit Findings Report summarises the work completed in relation to these areas.
6. An unmodified opinion on the financial statements has been issued and the audited financial statements and directors report has been submitted to Companies House ahead of the 31st December deadline.

Conclusions:

7. The Audit Findings Report is now presented to this Committee for information.

Financial and value for money implications

8. There are no direct value for money implications of this report.

Equalities and Diversity Implications

9. There are no direct equalities implications of this report.

Risk Management Implications

10. There are no direct risk management implications of this report.

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

Contact Details: Nicola.oconnor@surreycc.gov.uk 020 8541 9263

The Audit Findings for Surrey Choices Limited

Year ended 31 March 2016

Page 79
December 2016

Richard Hagley
Engagement Lead
T 0207 865 2160
E richard.hagley@uk.gt.com

James Thirgood
Manager
T 020 7728 2375
E james.e.thirgood@uk.gt.com

Neil Robertson
Audit Executive
T 0207 388 3378
E neil.a.robertson@uk.gt.com



Grant Thornton at a glance

52%
FTSE 100 are non-audit clients

No. 1
Independent advisor of AiM

4th
Largest auditor, UK's top privately-held companies

Page 80

42,000
People worldwide

26+
UK offices (+ Cayman and British Virgin Islands)

140+
Member firms of Grant Thornton International Ltd



Americas

- Fee income \$2 billion
- Over 340 offices, 30 countries, presence in all major financial and economic centres
- Over 15,000 people, including partners



Europe, Middle East and Africa

- Fee income \$2 billion
- Over 290 offices, 75 countries, presence in all major financial and economic centres
- Over 15,000 people, including partners

Grant Thornton International Ltd

- Fee income \$4.6 billion
- Over 130 countries
- Over 700 locations
- Over 42,000 people
- Global methodologies, strategy, global brand, global values – consistent global service



Asia Pacific

- Fee income \$583 million
- Over 80 offices, 19 countries, presence in all major financial and economic centres
- Over 9,000 people, including partners

Board of Directors
Surrey Choices Limited
Fernleigh Day Centre
Fernleigh Close
Walton on Thames
Surrey
KT12 1RD

December 2016

Dear Sirs

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

T +44 (0)20 7383 5100
www.grant-thornton.co.uk

Audit Findings for Surrey Choices Limited for the year ended 31 March 2016

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK and Ireland) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Richard Hagley

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see granthornton.co.uk for further details.

Contents

Section	Page	Appendices	Page
1. Executive summary	5	A. Action plan	28
2. Status of the audit and opinion	8	B. Prior year action plan	29
3. Audit findings	10		
4. Fees, non-audit services and independence	23		
5. Communication of audit matters	25		

Section 1: Executive summary

Page 83

- 01. Executive summary
- 02. Status of the audit and opinion
- 03. Audit findings
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters

Executive Summary

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the company's financial statements are that:

- the company produced draft financial statements for its first full year of trading in accordance with the agreed timetable and compliant with the new FRS 102 accounting framework, although there were a significant number of disclosure adjustments required
- although some progress has been made, there continue to be some challenges in the preparation of working papers for the audit
- a number of adjustments to the draft accounts have been identified during the audit process
- the company has strengthened its internal control framework, although we have identified areas where further improvements could be made.

We have identified a number of adjustments to the draft financial statements (details are recorded in section three of this report). The draft financial statements for the period ended 31 March 2016 recorded a loss for the year of £4,152,821. The equivalent figure per the audited financial statements is £3,619,553. The adjustments predominantly relate to:

- Write-off of a small amount of irrecoverable revenues and inclusion of bad debt allowance in respect of a number of aged debtors
- items incorrectly treated as prepayments
- various tax adjustments

We have also agreed with management a number of amendments to the notes to the financial statements and we have agreed a recommendation with management as regards the accuracy of key accounts working papers provided for audit. Full details can be found in Appendix A.

Progress since 2014/15

Our 2014/15 Audit Findings Report summarised these key messages arising from our work:

- the company produced draft financial statements for its first period of trading in accordance with the planned audit timetable and in time for inclusion in the consolidated accounts of the company's parent, Surrey County Council
- the company implemented a full general ledger system, BluQube, from February 2015 and began to develop and action some clearly defined month-end processes
- audit working papers as requested in the 'working paper requirements' document shared with the company were not provided at the start of the audit fieldwork – this caused a delay in some fieldwork being commenced
- the financial statements had to go through a number of iterations, with significant extra effort required to reach an acceptable standard
- the response time to audit queries was in many cases beyond the agreed timeframe and this meant that the completion of audit fieldwork was delayed significantly beyond the period of our onsite visit

As a result of these findings we raised a number of recommendations, the details of which are in Appendix B. As communicated in our 2015/16 Audit Plan, we have liaised with the company throughout to determine progress made in implementation and our assessment is reflected in Appendix B. This review has enabled us to confirm that since 2014/15:

- management have compiled an action plan that addresses our findings and actively monitored progress - weekly via the Executive Team and monthly via the Company Board
- significant improvements have been made as regards the ownership and transparency of financial performance across the company, supported by more robust governance and financial monitoring arrangements
- the company has compiled a Strategic Action Plan, supported by detailed financial analysis, that reflects a better understanding of the key drivers of the company's financial performance and reasons for deterioration of performance against previous versions of the Business Plan

Executive Summary (continued)

Since agreeing the prior year recommendations with management in December 2015, we have continued to support the company by:

- reviewing and commenting on the action plan raised as part of monthly liaison meetings with the Managing Director, Head of Finance and finance team
- holding ad hoc meetings with the Operations Director, Business Development Director and attending a Company Board meeting
- assisting with the restatement of the prior year accounts under the new FRS 102 accounting framework and providing advice on technically challenging disclosures, including pensions and tax

Page 65
Into 2017 we will continue to support the Head of Finance and new senior management team, focussing especially on the company's strategic plans and the key areas of audit risk.

Controls

Roles and responsibilities

The company's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the company.

Findings

We draw your attention to control issues identified in relation to approval of overtime, control account reconciliations, invoice processes and revenue contract arrangements.

Further details are provided within section three of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Finance and Managing Director.

Looking ahead, the company's key challenge is to deliver against the Strategic Action Plan, led by a new senior management team. This plan incorporates delivery of an efficiency programme and of strategies for continued rationalisation of the workforce and of the company estate. This will ensure the business is both sustainable and viable in the near future, building on the strong relationships embedded with Surrey County Council to drive improved health outcomes across the customer base. We will continue to support the company in this process and will work closely with the finance team to ensure accounts and audit working paper quality continues to improve. We will also take advantage of the company's new general ledger system in agreeing more extensive early testing in 2016/17.

Section 2: Status of the audit and opinion

01. Executive summary

02. Status of the audit and opinion

03. Audit findings

04. Fees, non-audit services and independence

05. Communication of audit matters

Status of the audit and opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.



- obtaining the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

Status

- (Red) Likely to result in material adjustment or significant change to disclosures within the financial statements
- (Amber) Potential to result in material adjustment or significant change to disclosures within the financial statements
- (Green) Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

Section 3: Audit findings

01. Executive summary

02. Status of the audit and opinion

03. Audit findings

04. Fees, non-audit services and independence

05. Communication of audit matters

Significant findings

	Risks identified in our Audit Plan	Commentary
1.	<p>Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA 240 (UK and Ireland) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<p>Per our Audit Plan we detailed that we would undertake the following procedures in response to this risk:</p> <ul style="list-style-type: none"> We will review and test revenue recognition policies for compliance with applicable standards We will perform substantive testing on significant contracts with Surrey County Council We will review the treatment of non contract income <p>Our procedures in this area were undertaken as planned and we have not identified any issues to bring to your attention.</p>
2.	<p>Management override of controls</p> <ul style="list-style-type: none"> Under ISA 240 (UK and Ireland) there is a presumed risk that the risk of management over-ride of controls is present in all entities 	<p>Per our Audit Plan we detailed that we would undertake the following procedures in response to this risk:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management Testing of journals entries Review of unusual significant transactions <p>Our procedures in this area were undertaken as planned. We noted one immaterial journal for £100 on a bank holiday which could not be explained by management, although we were able to trace the amounts being subsequently cleared out of the relevant accounts. We also identified a number of journals on weekends which were not fully documented and explanations were provided verbally. We understand these were raised as part of the management accounts process. We have not identified any other issues to bring to your attention.</p>
3.	<p>FRS 102 compliance</p> <ul style="list-style-type: none"> For periods commencing on or after 1 January 2015, new accounting standards come into effect for entities previously reporting under UK GAAP. Management are required to assess the impact of the changes under FRS 102, to select appropriate accounting policies and make required adjustments in the preparation of the financial statements. 	<p>Per our Audit Plan we detailed that we would undertake the following procedures in response to this risk:</p> <ul style="list-style-type: none"> Review of management's impact assessment to ensure all changes have been identified and that management have selected appropriate accounting policies Review of the financial statements to ensure these changes have been correctly accounted for in accordance with those policies Review of the presentation and disclosures in the financial statements to ensure compliance with the new standards <p>Our procedures in this area were undertaken as planned and we have not identified any issues to bring to your attention.</p>

Significant findings (continued)

	Risks identified in our Audit Plan	Commentary
4.	<p>Going concern</p> <p>You are facing significant financial challenges and have forecast a significant deficit position for 2015/16. This raises doubts over the completeness and accuracy of the going concern disclosures in the accounts, particularly in relation to material uncertainty.</p>	<p>In response to this risk, we undertook the following procedures:</p> <ul style="list-style-type: none"> Assessed management's use of the going concern assumption in preparing the financial statements and considered the appropriateness of the assumptions applied in arriving at that judgement Reviewed the most recent cashflow forecast covering the period to 31 March 2018 Reviewed the company's Strategic Action Plan, produced in July 2016 Reviewed and considered the appropriateness of disclosures regarding going concern in the financial statements <p>As a result of these procedures we have concluded that:</p> <ul style="list-style-type: none"> The financial analysis produced by the company as part of its Strategic Action Plan and cashflow forecasts are based on reasonable and sufficiently prudent assumptions The recent agreement of the block contract with Surrey County Council for 2016/17 has enabled the company to better understand its underlying costs and for both sides to clearly agree where responsibility for payment of each element lies The cashflow forecast is sufficiently robust and provides assurance that the company can achieve the desired financial stability in the near future The financial statements make appropriate disclosure of the uncertainties relating to management's use of the going concern assumption

Other findings

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan and any other issues arising. Our recommendations, together with management response, is attached at Appendix A.

	Risks identified in our Audit Plan	Work completed	Issues arising
1.	<p>Revenue and debtors</p> <ul style="list-style-type: none"> Contract accounting not consistent with terms 	<ul style="list-style-type: none"> Walkthrough of arrangements for accounting for contract arrangements Review of significant income contracts Agreement of significant income to contracts Review of significant contract arrangements to ensure they were accounted for correctly at year end Review and testing of other income where significant to ensure in line with terms 	<p>The company raised a £436k accrual relating to both 2015/16 and prior years relating to attendance of self-funders and those funded by other local authorities. There appeared to be few controls around the creation of this balance and documentation was hard to find.</p> <p>Subsequent to our testing of revenue we have agreed with management adjustments to a number of aged debts, involving writing off revenue amounting to £98k. A further bad debt allowance of £63k was recorded in the amended financial statements to reflect amounts not deemed wholly recoverable.</p> <p>Our testing of the residual debtors balance indicated that £118k remains unprovided and unpaid at the current date. management have indicated that they are confident in recovering this balance.</p> <p>Our testing identified £289k of items classified as prepayments which in fact related to 2016/17 and had been paid in 2016/17. Both debtors and creditors were over stated.</p> <p>We note that no formal block contract agreement was signed with Surrey County Council for 2015/16, but we have seen the signed contract for 2016/17.</p> <p>We have identified no other issues in relation to this risk we are required to report to you.</p>
2.	<p>Operating expenses and trade creditors</p> <ul style="list-style-type: none"> Creditors understated or not recorded in correct period 	<ul style="list-style-type: none"> Walkthrough of the operating expenses system Sample testing of in-year expenditure Completeness testing of expenditure and year end payables 	<p>Other than the amounts referred to regarding bad debt as per the risk above and the issue on transport and other costs set out below, we have identified no issues in relation to this risk we are required to report to you.</p> <p>During the period, management identified invoices totalling £251k in respect of transport costs relating to the prior year which had not been recharged from Surrey County Council. During our testing we identified a further extrapolated error of £145k in relation to other costs for 2014/15 which had not been accrued in the prior period. Management considered whether these should be treated as a prior period adjustment, but have concluded that the impact on the prior year is not fundamental and hence these costs have been recorded in 2015/16. We concurred with this treatment.</p>

Other findings

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan and any other issues arising. Our recommendations, together with management response, is attached at Appendix A.



	Risks identified in our Audit Plan	Work completed	Issues arising
3.	Payroll <ul style="list-style-type: none"> Employee remuneration and benefit obligations and expenses understated 	<ul style="list-style-type: none"> Walkthrough of payroll arrangements Review of work performed over the payroll system by the Surrey County Council audit team Completeness testing of payroll records Testing of payroll transactions to supporting records Reconciliation of payroll records 	We have identified no issues in relation to this risk we are required to report to you.
4.	Taxation <ul style="list-style-type: none"> Not identified in Audit Plan. 	<ul style="list-style-type: none"> Review of current tax and deferred tax computations. 	We noted a number of errors in the tax calculations, including the incorrect calculation of capital allowances and errors in treatment of prior year deductions. We also spent considerable time reconciling balances to the accounts and assisting in the correction of the computations. We recommend that management review their processes to prepare tax information and ensure these are fit for purpose.

Other communication requirements




	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Board and not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> The company updated this note. We are not aware of any related parties or related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> We draw your attention to the draft Letter of Representation separately provided, which includes representation on the deferred tax asset disclosed in the financial statements.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to the company's bank and loan with Surrey County Council. This permission was granted and the request was sent. This was returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Internal controls

Our audit has identified a number of observations in relation to the internal control framework. Items 2 to 4 below were communicated in our Audit Plan after completion of our interim audit in April 2016.

	Assessment	Issue and risk	Recommendations
1.	 (Red)	As set out in the previous section, transport costs of £251k and other costs of £145k were identified which should have been accrued in 2014/15. Controls over accruals at 31 March 2016 appear to be improved but we recommend that management carefully review their procedures for confirming the completeness of accruals at each balance sheet date.	Management response: We acknowledge your findings; this came up as part of the understatement of 2014/15 accounts. We took an immediate action in 2015/16 accounts to review as far as we were aware the suppliers accounts and other re-occurring costs. We have updated our controls to identify more clearly, costs and accruals for period end. Although we have improved this process in this current year, a continuous review of this process will be on-going, in order to make improvements and a new Purchase Order system should assist in supporting more accurate reporting on accruals, going forward.
2.	 (Amber)	Our testing of revenue and expenditure identified differences between the figures per the purchases/sales ledger and the nominal ledger. It is good practice to regularly reconcile the purchases and sales control accounts. We recognise the change of ledger system that will make this control much easier to implement in 2016/17. The Company needs to retain sufficient third party documentation to support revenue recognition.	Management response: We acknowledge your findings; we noticed this during our ledger review work in January 2016. The differences in the Ledgers were carried forward from the previous financial year. The audit close happened in December and proper reconciliation had not been done to reconcile the ledger back to the financial statement numbers. During this year, the ledgers were reconciled and corrected to prior year audit close. Beyond these opening differences, there were no other reconciliation issues during the year between the ledgers and the control Accounts. Going forward, with a new financial system and an operational process in place to reconcile and close ledgers, these findings will be rectified.



Assessment

-  (Red) Material weakness – risk of material misstatement (Red)
-  (Amber) Significant deficiency – risk of significant misstatement (Amber)
-  (Green) Deficiency – risk of inconsequential misstatement (Green)

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK and Ireland 265)




Internal controls

Our audit has identified a number of observations in relation to the internal control framework. Items 2 to 4 below were communicated in our Audit Plan after completion of our interim audit in April 2016.

	Assessment	Issue and risk	Recommendations
3.	 (Amber)	It was noted that it was difficult for the company determine accurately the services which fall within the block contract agreed with Surrey County Council. This is resulting in invoices either being raised incorrectly or not being raised/payment not being received when services outside the remit of the contract were being supplied. It is recommended that the Company and the Council clarify the services within the block contract arrangements.	<p>Management response:</p> <p>We acknowledge your findings. This is simply because the block contract from 2015/16 was amended from the original 2014/15 contract with little detail passed on to the administrator about variation of contracts and when to adjust. During the year, Surrey Choices has undertaken a lot of work in looking at what is included within the block contract. The signed contract document for 2016/17 that we have now shared with you contains details on what is included in the block contract.</p> <p>There has been a focus on working towards accurate reporting on Customers and their related information which will then inform us and the commissioner on customer volumes, needs and outcomes. This is now being done on an on-going basis in conjunction with Surrey County Council.</p>
4.	 (Amber)	<p>Business unit administrators are able to receive money and create invoices and credit notes. This represents an insufficient segregation of duties and it is recommended that additional controls are implemented in this area.</p>	<p>Management response:</p> <p>We acknowledge your findings. The majority of funds are received by Surrey Choices via BACS/CHAPS transfer and cheque. Occasionally, however, we do receive cash through our business units. Administrators have also been able to raise sales invoices and credit notes for customer activities. Surrey Choices is working to change this. The accounting function is becoming more centralised and administrators no longer have direct access to the accounting system. The new CRM will, in the future, become the driver for customer billing and in the interim, sales invoices are review by the accounting team prior to being captured on the accounting system.</p>

Page 95


Assessment

-  (Red) Material weakness – risk of material misstatement (Red)
-  (Amber) Significant deficiency – risk of significant misstatement (Amber)
-  (Green) Deficiency – risk of inconsequential misstatement (Green)




"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK and Ireland 265)

Internal controls

Our audit has identified a number of observations in relation to the internal control framework. Items 2 to 4 below were communicated in our Audit Plan after completion of our interim audit in April 2016.

	Assessment	Issue and risk	Recommendations
5.	 (Green)	Administrators complete monthly spreadsheets detailing time and sickness but there is no approval process for overtime submitted by employees. It is recommended that overtime is formally approved before payment.	<p>Management response:</p> <p>The normal practice is for managers at each business unit is to authorise any overtime before it occurs and timesheets are filled in by administrators after the fact. Administrators need the business unit manager to approve the timesheet prior to submission to SCC payroll. The approval after the administrator has consolidated the timesheet is sometimes missing, which is what Grant Thornton is referring to. However, this is not the norm, as in most cases the business unit manager does approve the timesheet prior to submission.</p> <p>With our change of payroll provider, we have worked with those completing the forms to ensure they clarify the information they are putting in before they submit it. We have put in place a process across the board that no overtime or TOIL is to be accumulated or paid without the prior agreement of the Manager – which in itself should be evidenced if required. As part of the process for receiving the Payroll submissions on a monthly basis, the HR/Finance teams are now undertaking their own monthly sanity check of the submissions to ensure that there are no concerns, inconsistencies or patterns and if there are, then these will be checked and addressed directly with managers before they are put forward for payment.</p>

Assessment

-  (Red) Material weakness – risk of material misstatement (Red)
-  (Amber) Significant deficiency – risk of significant misstatement (Amber)
-  (Green) Deficiency – risk of inconsequential misstatement (Green)

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK and Ireland 265)

Internal controls – review of issues raised in prior year

Page 97

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<ul style="list-style-type: none"> Our testing of payroll expenditure identified a number of individuals for whom the company did not hold contracts of employment. It has been explained that: <ul style="list-style-type: none"> (i) For staff transferred from Surrey County Council, contract files have not yet been released by the Council (ii) For joiners to the company post-transfer, employment contracts have not yet been signed (iii) For Senior Management, the employment contracts have not yet been signed <p>If signed contracts are not held by the company there is a risk of non-compliance with the requirements of the company's regulator, the Care Quality Commission. There is also a contractual risk in the event of disputes with employees.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> (i) We accept the findings of the report. We had identified this issue in July 2015 and have contacted Surrey County Council to ask for the files to be retrieved and passed to us as soon as possible. (ii) We accept the findings of the report. New contracts of employment have now been drafted and we expect all staff to have signed their contract by 31 March 2016. (iii) We accept the findings of the report. Contracts of employment for senior managers have been drafted and we expect all senior managers to have signed their contract by 31 March 2016. <p>Auditor commentary</p> <ul style="list-style-type: none"> During our testing of 25 employees in 2015/16, we noted 3 who did not appear to have signed contracts.
2.	✓	<ul style="list-style-type: none"> Testing of journals identified a number of weaknesses around journals processes. Specifically, there are no set limits in the system for journals posting, segregation of duties between journal preparer and poster have not always been followed and there is no evidence of journals authorisation have taken place. We recognise that the general ledger does limit the access to post journals to the financial controller only. 	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report. New sign off processes and limits are currently being developed and we would expect them to be in place, including a retrospective review of all journals by 31 January 2016. <p>Auditor commentary</p> <ul style="list-style-type: none"> These issues have recurred through our testing procedures in 2015/16 and we have confirmed that controls over journals have been significantly strengthened but only from December 2015.
3.	X	<ul style="list-style-type: none"> Our testing of creditors identified a small number of invoices that related to 2014-15 but that were not included in the year-end creditors balance (further details are provided in section eight of this report). This was due mainly to late receipt of invoices from some of the business units and, as a result, a lack of timely review by the finance team. <p>There is a risk that creditors are understated in the financial statements and in-year management accounts.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report in regard to the former manual accounting processes. Our bluQube processes are currently being reviewed to ensure all costs and liabilities are identified and that creditors are correctly stated. <p>Auditor commentary</p> <ul style="list-style-type: none"> Please see control point on previous page – this issue still needs to be addressed.

Assessment

✓ Action completed X Not yet addressed

Internal controls – review of issues raised in prior year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4.	✓	<ul style="list-style-type: none"> There was a difference of £777 identified when the petty cash balances were reconciled to the accounts, which the financial controller undertook during the audit. There is no formal process in place to reconcile the petty cash balances at year-end. <p>There is a risk that cash balances are not accurately stated in the company's assets and, if not regularly reconciled, that assets are misappropriated.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report. New processes are now in place to ensure petty cash is regularly reconciled as part of month end processes. We will also include a specific section on control of both petty cash and purchasing cards in our Quality Checking process. <p>Auditor commentary</p> <ul style="list-style-type: none"> These issues have not recurred through our testing procedures in 2015/16 and we have confirmed that controls over petty cash have been formalised and correctly implemented.
5.	✓	<ul style="list-style-type: none"> There were a number of income balances due from Surrey County Council for which no supporting invoices were raised. This is due to the Council being viewed as an internal department for which, per company policy, no invoices are raised. <p>There is a risk that this could put the company at risk of challenge from the Council over amounts due.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report. This was a particular issue relating to additional funding for EmployAbility activity. This is no longer the case as all revenues are invoiced. <p>Auditor commentary</p> <ul style="list-style-type: none"> These issues have not been observed through our testing procedures in 2015/16 and we have confirmed that invoicing processes have been sufficiently strengthened so as to mitigate the risk of such issues recurring.

Page 98

Assessment

✓ Action completed

X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key financial statements and the reported loss before tax for the year.

Detail	Statement of Comprehensive Income £	Statement of Financial Position £	Impact on loss before tax £
1 Additional bad debt provision.	Dr cost of sales 63k	Cr Bad debt provision 63k	Dr 63k
2 Write off of irrecoverable debtors.	Dr Bad debt expense 98k	Cr Trade debtors 98k	Dr 98k
3 Items incorrectly treated as prepayments		Dr Creditors £289k Cr prepayments £289k	nil
4 Taxation adjustments	Cr Tax charge 710k	Dr Tax payable 710k	Cr 710k
Overall impact			Cr 549k

Page 99

Unadjusted misstatements

Detail	Statement of Comprehensive Income £	Statement of Financial Position £	Impact on loss before tax £
1 Trade debtors unsubstantiated.	Dr Turnover 28k	Cr Trade debtors 28k	Dr 28k
2 2014/15 costs recorded in 2015/16.	Cr Operating expenses 396k	Dr Opening reserves 396k	Cr 396k
Overall impact			Cr 368k

Impact of unadjusted misstatements in the prior year

Included below are unadjusted misstatements from our prior year Audit Findings Report. We can confirm that we have not identified similar misstatements in the 15/16 financial statements and as such we are satisfied that the judgement made by management in relation to these issues remains appropriate.

Detail	Profit and loss account		Balance sheet		Profit effect	Reason for not adjusting
	Debit	Credit	Debit	Credit		
Loss per final accounts					(666,764)	
Cost of sales	19,179				(19,179)	
Creditors				19,179	-	
Being accrual of costs relating to 14/15 for which invoices were received post year-end						Amount is immaterial
Turnover	38,960				(38,960)	
Debtors				38,960	-	
Being inclusion of an amount in debtors that should have been removed						Amount is immaterial
Potential Loss	58,139	-	-	58,139	(724,903)	

Section 4: Fees, non-audit services and independence

- 01. Executive summary
- 02. Status of the audit and opinion
- 03. Audit findings
- 04. Fees, non-audit services and independence**
- 05. Communication of audit matters

Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Company audit	21,250*	N	n/a
Non-audit service: tax-compliance work – iXBRL tagging	1,000**	Y	Separate engagement team
Audit-related service: certification of Teachers' Pensions claim	3,500	Y	Separate engagement team
Total fees	25,750		

- The above non-audit services are consistent with the company's policy on the allotment of non-audit work to its auditor.

Page 102
* Includes one-off fee of £3,250 for FRS 102 compliance

** To be confirmed

Independence and ethics:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements
- We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Status of the audit and opinion
- 03. Audit findings
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters

Communication of audit matters with those charged with governance

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

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

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

Distribution of this Audit Findings report

Whilst we seek to ensure our Audit Findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to those charged with governance.

Respective responsibilities

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

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

Appendices

Page 105

Appendix A: Action Plan

The following recommendation has been agreed with management:

Rec. No.	Recommendation for 2016/17	Priority	Management response
1.	Working papers in a number of key areas (revenue and payroll costs) did contain differences when compared to the financial statements. As such, we recommend undertaking a quality review of audit working papers before finalisation.	Medium	

Appendix B: Prior year action plan

We include below details of prior year recommendations. These were also included in our Audit Plan and include details of the extent to which they have been implemented by management.

Rec. No.	Issue in 2014/15 Audit Findings Report	Recommendation and management response	Assessment of progress made in implementation
1	<p>Compile working papers for the start of the audit that include transaction-level or equivalent listings supporting every balance in the financial statements</p>	<p>We agree with the recommendation in the report. The implementation of bluQube will help this area substantially. We would expect this to be in place for the preparation of the financial statements to the period ended 31 March 2016.</p> <p>However, we would also propose Surrey Choices and Grant Thornton undertake collaborative work, especially in planning of the audit. Changes to personnel and the extended gap between audit planning and fieldwork meant that some disruption occurred from our perspective, with some information requests being repeated. This led to confusion both in the finance team in Surrey Choices and the audit team in Grant Thornton and contributed to some of the issues highlighted in your report. Whilst this is by no means a significant issue, we believe there is scope to improve our joint working, making both the work of both client and auditor more efficient and effective.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> Working paper quality has improved significantly since last year, both in terms of completeness and accuracy. There were a small number of areas where there were differences still and this is reflected in a current year recommendation per the action plan in appendix A.
2.	<p>Ensure the 2015/16 accounts are prepared in accordance with the requirements of FRS 102 before submission for audit</p>	<p>We accept the recommendation in the report. Whilst our financial statements for the period ended 31 March 2015 were appropriately prepared using FRS 3, as mentioned above we believe that some of the adjustments were both a normal part of a year end review and that others especially relating to the application pension liabilities, proved so technically challenging that even experts within Grant Thornton struggled to provide the correct advice first time. Therefore, it is an unreasonable expectation that the financial statements will be perfect prior to audit. We agree that we can improve our readiness, (regardless of the accounting standard in operation), and that this can be achieved through improved planning as identified above.</p> <p>We acknowledge that for the period ended 31 March 2016 is past the trigger date for FRS 102 and we are training our staff in the use of FRS 102 in preparing our financial statements.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> We supported the company to produce its first set of FRS 102-compliant financial statements. There were no significant changes required to the presentation of the financial statements and supporting notes.

Page 107



© 2016 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Financial Statements Surrey Choices Limited

For the year ended 31 March 2016

Registered number: 08931490

Surrey Choices Limited
Registered number:08931490

Company Information

Directors	S Laker (resigned 29 July 2016) N.M Wilson (appointed 10 March 2014, resigned 16 July 2015) K M Kilburn (appointed 16 July 2015) M Farrow (appointed 11 August 2016)
Registered number	08931490
Registered office	Fernleigh Day Service Fernleigh Close Hersham Road, Walton- on- Thames KT12 1RD
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Grant Thornton House Melton Street Euston Square London NW1 2EP

Surrey Choices Limited
Registered number:08931490

Contents

	Page
Directors' report	1 - 2
Strategic report	3 - 4
Independent auditor's report	5 - 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of cash flows	9
Statement of changes in equity	10
Notes to the financial statements	11 - 27

Surrey Choices Limited

Directors' Report

For the year ended 31 March 2016

The directors present their report and the financial statements for the year ended 31 March 2016.

Principal activities

The Company is principally engaged in the provision of adult social care services across Surrey.

Results and dividends

The loss for the year, after taxation, amounted to £3,619,553 (2015 - loss £666,764).

No dividend was declared for the year.

Directors

The directors who served during the year were:

S.Laker (resigned 29 July 2016)
 M.N.Wilson (resigned 16 July 2015)
 K.M.Kilburn (appointed 16 July 2015)

Employment of disabled persons

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The company's policy is to consult and discuss with employees, through unions and at staff meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through staff briefings and reports that seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and

Surrey Choices Limited

Directors' Report

For the year ended 31 March 2016

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

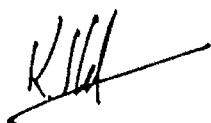
Auditors

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Medium sized company provisions

In preparing this report, the Directors have taken advantage of the medium-sized companies exemptions provided by part 15 of the Companies Act 2006.

This report was approved by the board on *12 December, 2016* and signed on its behalf.



Kevin Kilburn
Director

Surrey Choices Limited
Registered number:08931490

Strategic Report

For the year ended 31 March 2016

The directors present their strategic report and the financial statements for the year ended 31 March 2016.

Business review

Surrey Choices Limited was incorporated on 10 March 2014 and began to trade on 18 August 2014. The Company is wholly owned by Surrey County Council and was established to create innovative new models of delivery that would improve the quality and affordability of services for existing and new customers.

Fair review of business

The results for the business for the year, which are set out in the statement of comprehensive income, show turnover for the period of £12,760,464 and a total comprehensive income for the financial period of £ (2,940,353). At 31 March 2016, the company had net liabilities excluding pension liabilities of £3,865,417 and net liabilities including pension liabilities of £3,897,417. The directors of the company consider that the financial position at the period end is satisfactory being in line with the business plan.

Given the nature of the business, the company's directors are of the opinion that key performance indicators are important. The company uses a number of indicators to monitor and improve development and performance of the position of the business. Indicators are reviewed and altered to meet changes both in the internal and external environments. The directors do not consider the inclusion of an analysis using key performance indicators to be necessary to assist users of the financial statements in their understanding of the financial performance or position of the company.

Future developments

The external commercial environment is expected to remain competitive going forward. However, the directors remain confident and presently see no reason why the company should not be able to improve its current level of performance in the future as it innovates new products and services for a significant unserved market for a range of younger, older and disabled people in Surrey and beyond.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to the continuation of trading with Surrey County Council, satisfactory negotiations with Surrey County Council as the contract moves to spot purchasing, the quality and continuity of staff working in the business and access to capital where necessary to grow the business.

Surrey Choices Limited
Registered number:08931490

Strategic Report (Continued)

Financial instruments

Objectives and policies

The directors constantly monitor the company's trading results and revise projections as appropriate to ensure that the company can meet its future obligations as they fall due.

Price risk, credit risk, liquidity risk and cash flow risk

The business' principal financial instruments comprise bank balances, trade debtors and trade creditors. The main purpose of these instruments is to finance the business' operations.

The financial results reflect the pension scheme liability related to former Council employees that are members of the Local Government Pension Scheme (LGPS) and Teachers Pension Scheme (TPS) who transferred to the company on 18 August 2014. The pension scheme liability of the company is limited to liabilities accruing after 18 August 2014. The company has been given a guarantee by the Council that the LGPS' and TPS' administrators are indemnified by the Council against any shortfall of payments of pension contributions and associated pension liabilities. In addition, Surrey County Council will support finance facilities to the Company whilst it remains a wholly owned subsidiary of the Council.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors' liquidity risk is managed by ensuring sufficient funds are available to meet amounts due. The business manages the liquidity risk by ensuring that there are sufficient funds to meet the payments.

This report was approved by the board on 12 December, 2016 and signed on its behalf.


Kevin Kilburn
Director



Independent Auditor's Report to the Members of Surrey Choices Limited

We have audited the financial statements of Surrey Choices Limited for the year ended 31 March 2016 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 1 and 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



Independent Auditor's Report to the Members of Surrey Choices Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

A handwritten signature in black ink that reads "Richard Hagley".

Richard Hagley

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

Date: 12 December 2016

Surrey Choices Limited
Registered number:08931490

Statement of Comprehensive Income

For the year ended 31 March 2016

	Note	2016 £	2015 £
Turnover	3	12,760,464	7,638,939
Cost of Sales		<u>(13,791,642)</u>	<u>(7,033,628)</u>
Gross (loss)/profit		(1,031,178)	605,311
Administrative Cost		(2,513,886)	(614,955)
Exceptional other operational Charges		<u>-</u>	<u>(551,331)</u>
Operating Loss	4	(3,545,064)	(560,975)
Interest Payable and expense	8	<u>(128,921)</u>	<u>(49,234)</u>
Loss before tax		(3,673,985)	(610,209)
Tax on Loss	9	<u>54,432</u>	<u>(56,555)</u>
Loss for the year		<u><u>(3,619,553)</u></u>	<u><u>(666,764)</u></u>
Other Comprehensive Income for the Year			
Loss for the financial period		(3,619,553)	(666,764)
Actuarial Gains on defined benefit pension scheme	20	849,000	(363,000)
Movement of deferred tax relating to pension liability		<u>(169,800)</u>	<u>72,600</u>
Other Comprehensive Income for the Year		679,200	(290,400)
Total Comprehensive Income for the Year		<u><u>(2,940,353)</u></u>	<u><u>(957,164)</u></u>

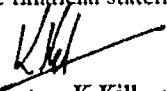
Surrey Choices Limited
Registered number:08931490

Statement of Financial Position

As At 31st March 2016

	Note	2016 £	2015 £
Fixed assets			
Tangible Assets	10	<u>697,436</u>	<u>853,562</u>
<u>Current Assets</u>			
Debtors	11	420,901	232,379
Cash at Bank and in Hand	12	<u>238,891</u>	<u>1,119,091</u>
		659,793	1,351,470
Creditors: Amounts Falling due within one year	13	<u>(2,858,323)</u>	<u>(1,261,096)</u>
Net Current (Liabilities)/Assets		<u>(2,198,530)</u>	<u>90,374</u>
Total Assets less current Liabilities		(1,501,094)	943,936
Creditors: Amount falling due after more than one year	14	(2,265,000)	(1,365,000)
Pension Liability	20	(32,000)	(536,000)
Deferred Tax Liability	17	<u>(99,323)</u>	<u>-</u>
Net liabilities		<u>(3,897,417)</u>	<u>(957,064)</u>
Capital and Reserves			
Called-up Share Capital	19	100	100
Profit and loss account	18	<u>(3,897,517)</u>	<u>(957,164)</u>
		<u>(3,897,417)</u>	<u>(957,064)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by


Director: K Kilburn

Date: 12 December 2016

Surrey Choices Limited
Registered number:08931490

Statement of cash flows

For the year ended 31 March 2016

	2016	2015
	£	£
Cash flow from operating activities		
Loss for the financial year	(3,619,553)	(666,764)
Adjustments for:		
Depreciation of tangible assets	370,117	148,316
Interest paid	71,921	22,234
Pension service cost recognised	635,000	357,000
Employee's pension contributions	(290,000)	(184,000)
Deferred tax released	(54,432)	56,555
Decrease/(increase) in trade and other debtors	(204,567)	(216,334)
Increase (decrease) in trade creditors	<u>1,597,226</u>	<u>1,261,096</u>
Cash flow from operations	(1,494,288)	778,103
Income taxes paid	<u>-</u>	<u>-</u>
Net cash (used by)/generated from operating activities	(1,494,288)	778,103
 Cash flows from investing activities		
Improvement of Lease property	(37,915)	(280,779)
Purchase of other fixed assets	<u>(176,076)</u>	<u>(721,099)</u>
Net cash from investment activities	(213,991)	(1,001,878)
 Cash flows from financing activities		
Issue of ordinary share capital	-	100
Loan Received	900,000	1,365,000
Loan repaid	-	-
Interest paid	<u>(71,921)</u>	<u>(22,234)</u>
Net cash generated from financing activities	828,079	1,342,866
 Net (decrease)/increase in cash and cash equivalents	(880,200)	1,119,091
 Cash and cash equivalents at the beginning of the year	<u>1,119,091</u>	<u>-</u>
Cash and cash equivalents at the end of the year	<u>238,891</u>	<u>1,119,091</u>

Surrey Choices Limited
Registered number:08931490

Statement of Changes in Equity

For the year ended 31 March 2016

	Share Capital	Retained Earnings	Total Equity
	£	£	£
At 1 April 2014	-	-	-
Loss for the year		(666,764)	(666,764)
Other Comprehensive income for the period			
Actuarial Gain/Loss net of tax		(290,400)	(290,400)
Issue of shares	100		100
Dividend paid	-	-	-
At 31 March 2015	100	(957,164)	(957,064)
Loss for the year		(3,619,553)	(3,619,553)
Other Comprehensive income for the period			
Actuarial Gain/Loss net of tax		679,200	679,200
Issue of shares	-	-	-
Dividend	-	-	-
At 31 March 2016	100	(3,897,517)	(3,897,417)

The notes on pages 11 to 27 form part of these financial statements.

Surrey Choices Limited

Notes to the Financial Statements

For the year ended 31 March 2016

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 23.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.2 Going concern

The company relies on a contract with Surrey County Council to provide certain services to the Council for an initial three-year term until 18 August 2017 with an automatic two-year extension thereafter. Whilst there is no minimum commitment to contract volumes from the Council, the directors maintain close contact with the Council and have no reason to believe that reasonable purchasing volumes would not continue in the foreseeable future. The Company funds its working capital requirements through an agreed five-year credit facility with its parent entity. The Directors have reviewed the Company's forecasts for the next financial year from the date of formally approving the annual report and financial statements. On this basis the directors consider that it is appropriate to prepare the accounts on a going concern basis.

1.3 Turnover

Turnover represents amounts chargeable in respect of the provision of social care services, exclusive of VAT and is recognised when the services are rendered.

1.4 Tangible fixed assets

Depreciation is provided on tangible fixed assets so as to write off the cost less any estimated residual value, on a straight-line basis over their expected useful economic life.

The estimated useful lives range as follows:

Leasehold property Improvement	-	over 3 years
Furniture, fixtures & equipment	-	over 3 years
Former Council fixtures & fittings	-	over 3 years
Computer equipment	-	over 3 years

1.5 Assets in course of construction

Where assets have not yet been commissioned and brought into operation they are recorded as assets in course of construction and are not depreciated.

Surrey Choices Limited

Notes to the Financial Statements

For the year ended 31 March 2016

1.6 Operating leases

Rentals payable under operating leases are charged in the statement of comprehensive income on a straight-line basis over the lease term.

1.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.9 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- i) at fair value with changes recognised in the Income statement if the shares are publicly traded or their fair value can otherwise be measured reliably;
- ii) at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Income statement.

Surrey Choices Limited
Registered number:08931490

Notes to the Financial Statements

For the year ended 31 March 2016

1. Accounting policies (continued)

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

1.11 Finance costs

Finance costs are charged to the Income statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.12 Pensions

The company's sole shareholder, Surrey County Council, operates a defined benefit pension schemes providing benefits based on final pensionable pay through the Local Government Pension Scheme and Teachers' Pension Scheme. The company meets the obligations for relevant staff under these schemes

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations.

The contributions are recognised as an expense in the Income statement when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

1.13 Provisions for Liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Surrey Choices Limited
Registered number:08931490

Notes to the Financial Statements For the year ended 31 March 2016

1. Accounting policies (continued)

Provisions are charged as an expense to the Income statement in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

1.14 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

1.15 Taxation

A tax liability will be recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

A deferred tax liability or asset is recognised for the additional tax that will be incurred or deductible in the future based on assets and liabilities that are recognised in a business combination. Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Surrey Choices Limited
Registered number:08931490

Notes to the Financial Statements

For the year ended 31 March 2016

2. Judgments in applying accounting policies and key sources of estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgements, estimates and assumptions made by management, and will seldom equal estimated results. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of asset, income and expenses is provided below.

- i) **Improvement of Lease Property**
Improvement Expenditure is capitalised in accordance with the accounting policy of fixed asset given above. Management review the cost incurred on the property to ensure it meet the criteria of capital cost and has foreseeable economic use. The entity recognises the costs of day to day servicing of an item of property, plant and equipment in the income and expenditure in the period in which the costs are incurred.
- ii) **Pension and other post-employment benefit**
The cost of defined benefit pension plan and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increase. This valuation is subject to significant uncertainty due to the complexity of the calculation and the long term nature of the plan.
- iii) **Useful lives of depreciable assets**
Management reviews the useful lives of depreciable assets at each reporting date on the expected utility of the assets to the Company. The carrying amounts are analysed in note 10. Actual results however, may vary due to technical obsolescence, particularly for computer equipment.

3. Turnover

The whole of the turnover is attributable to providing adult social care and support services and is wholly undertaken in the United Kingdom.

4. Operating loss

The operating loss is stated after charging:

	2016	2015
	£	£
Operating leases - property	1,287,647	837,125
Depreciation of owned assets	370,117	148,316
Auditor's remuneration	40,690	10,000
Defined contribution pension cost	699,370	500,142
	<u>699,370</u>	<u>500,142</u>

Surrey Choices Limited
Registered number:08931490

Notes to the Financial Statements
For the year ended 31 March 2016

5. Auditor's remuneration

The remuneration of the auditors and its services is further analysed as follows:

	2016	2015
	£	£
Audit of financial statements *	31,250	10,000
Taxation compliance service **	2,440	-
Other audit related service: certification of Teachers' Pensions ***	7,000	-
	<u>40,690</u>	<u>10,000</u>

* Includes one-off fee of £3,250 for FRS 102 compliance, £10,000 additional fee for 2015

**Includes tax compliance service 2016 £1,000, (2015 £1,440)

*** Includes other audit related service 2016 £3,500, (2015, £3,500)

6. Particulars of employees

Staff costs, including directors' remuneration, were as follows:

	2016	2015
	£	£
Wages and salaries	7,438,065	3,619,133
Social security	511,139	242,102
Pension cost	1,277,370	1,005,001
	<u>9,226,574</u>	<u>4,866,236</u>

Surrey Choices Limited
Registered number:08931490

Notes to the Financial Statements
For the year ended 31 March 2016

The average monthly number of employees, including the directors, during the year was as follows:

	2016	2015
	No.	No.
Support workers and operational staff	268	258
Managers	29	27
	<u>297</u>	<u>285</u>

7. Directors' remuneration

	2016	2015
	£	£
Wages and salaries	244,709	58,847
Social security Cost	29,596	6,153
Other Pension costs	19,445	9,041
	<u>293,750</u>	<u>74,041</u>

During the year 1 director participated in the money purchase pension schemes and 1 director participated in defined benefit pension schemes.

8. Interest payable and similar charges

	2016	2015
	£	£
Bank interest payable	71,921	22,234
Other finance costs	57,000	27,000
	<u>128,921</u>	<u>49,234</u>

Surrey Choices Limited

Notes to the Financial Statements
For the year ended 31 March 2016

9. Taxation

	2016	2015
	£	£
Current tax		
United Kingdom Corporation tax	-	-
Deferred tax		
Origination and reversal of timing differences	(16,570)	56,555
Prior year deferred tax adjustment	(37,862)	-
Total deferred tax (expenditure)/ income on ordinary activities	(54,432)	56,555
Total current and deferred tax relating to items of Other Comprehensive income	169,800	(72,600)
Total Tax	115,368	(16,045)

Factors affecting tax charge for the year/period

The tax assessed for the year/period is lower than (2015- lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20%. The differences are explained below:

	2016	2015
	£	£
Loss on ordinary activities before tax	(3,673,986)	(610,209)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 -20%)	(734,797)	(122,042)
Effects of:		
Expenses not deductible for tax purposes	143,760	97,315
Application of Group tax relief	90,179	81,282
Adjustments to tax charge in respect of previous period	(37,862)	-
Accumulated losses not recognised as a tax asset	484,288	-
Tax on results on ordinary activities	(54,432)	56,555

Surrey Choices Limited

Notes to the Financial Statements

For the year ended 31 March 2016

10. Fixed Assets

	Leasehold property Improvements	Furniture, Fixtures & Equipment	Former Council Fixtures & Fittings	Computer Equipment	Total
	£	£	£	£	£
Cost					
At 1 April 2015	280,779	-	411,504	309,595	1,001,878
Additions	37,915	120,896	-	55,180	213,991
Disposal	-	-	-	-	-
At 31 March 2016	318,694	120,896	411,504	364,775	1,215,869
Depreciation					
At 1 April 2015	10,817	-	113,805	23,694	148,316
Provided in the year	93,593	19,920	137,168	119,436	370,117
Disposal	-	-	-	-	-
At 31 March 2016	104,410	19,920	250,973	143,130	518,433
Net Book amount at					
31 March 2016	214,284	100,976	160,531	221,645	697,436
Net Book amount at					
31 March 2015	269,962	-	297,699	285,901	853,562

Surrey Choices Limited

Notes to the Financial Statements
For the year ended 31 March 2016**11. Debtors**

	2016	2015
	£	£
Trade debtors	419,796	175,706
Prepayments and accrued income	1,105	40,627
Net deferred tax asset	-	16,046
	<u>420,901</u>	<u>232,379</u>

12. Cash and cash equivalents

	2016	2015
	£	£
Cash at bank and in hand	<u>238,891</u>	<u>1,119,091</u>
	<u>238,891</u>	<u>1,119,091</u>

13. Creditors: Amount falling due within one year

	2016	2015
	£	£
Trade creditors	1,911,124	421,906
Other taxes and social security	864,023	807,239
Other creditors	-	21,951
Accruals	<u>83,176</u>	<u>10,000</u>
	<u>2,858,323</u>	<u>1,261,096</u>

Surrey Choices Limited

Notes to the Financial Statements
For the year ended 31 March 2016**14. Creditors: Amounts falling due after more than one year**

	2016	2015
	£	£
Amount owed to parent undertaking	<u>2,265,000</u>	<u>1,365,000</u>
	<u>2,265,000</u>	<u>1,365,000</u>

Loans included within creditors, are analysed as follows:

	2016	2015
	£	£
2.5% above base revolving loan	1,565,000	1,365,000
4.24% set-up loan facility	<u>700,000</u>	<u>-</u>
	<u>2,265,000</u>	<u>1,365,000</u>

These loans are secured by fixed charges over various assets of the company

The company's parent has provided a five-year revolving loan facility of £2,000,000 of which currently £1,565,000 has been drawn down, this will mature in June 2019.

The interest term for the revolving loan is to be paid quarterly in arrears

The set-up loan has been drawn down in full and the repayment is expected by August 2019, interest is paid six monthly in arrears.

15. Leasing commitments

The company's future operating lease payments are as follows:

	2016	2015
	£	£
Within one year	1,068,405	1,287,647
Between one and five years	<u>2,358,889</u>	<u>3,437,294</u>

Surrey Choices Limited

Notes to the Financial Statements
For the year ended 31 March 2016**16. Financial instruments**

Financial instruments are measured at amortised cost

Financial assets	2016 £	2015 £
Debtor	419,796	175,706
Cash	<u>238,891</u>	<u>1,119,091</u>
	<u>658,687</u>	<u>1,294,797</u>
 Financial liabilities		
Trade creditors	1,911,124	421,906
Other creditor	83,176	31,951
Loan	<u>2,265,000</u>	<u>1,365,000</u>
	<u>4,259,300</u>	<u>1,818,857</u>

17. Deferred taxation

	2016 £	2015 £
Opening deferred tax asset at 1 April 2015 and 14 August 2014	16,045	-
Released during/(Charged for) year in Profit and loss statement	54,432	(56,555)
Released during/(Charged for) year in Other comprehensive income statement	<u>(169,800)</u>	<u>72,600</u>
Closing deferred tax (liability)/asset at 31 March	<u>(99,323)</u>	<u>16,045</u>

The deferred tax is made up as follows:

	2016 £	2015 £
Accelerated Capital Allowances	(14,693)	(98,094)
Other short term timing differences	12,570	-
Unrelieved tax losses - not recognised	-	41,539
Gains/Losses on net defined benefit scheme assets	<u>(97,200)</u>	<u>72,600</u>
Deferred Tax (liability) /asset	<u>(99,323)</u>	<u>16,045</u>

Surrey Choices Limited

Notes to the Financial Statements

For the year ended 31 March 2016

18. Profit and Loss Account

	2016	2015
	£	£
Opening balance	(957,164)	-
Loss for the financial period	(3,619,553)	(666,764)
Actuarial Gain/(Loss) on defined benefit pension scheme asset	849,000	(363,000)
Deferred tax (Liability)/asset on defined benefit scheme asset	(169,800)	72,600
	<u>(3,897,517)</u>	<u>(957,164)</u>
Closing balance as at 31 March		

19. Share Capital

	2016	2015
	£	£
Allotted, called up and fully paid		
100 - Ordinary shares of £1 each	<u>100</u>	<u>100</u>

Surrey Choices Limited

Notes to the Financial Statements

For the year ended 31 March 2016

20. Pension obligations

The trustees of the TPS and LGPS schemes hold the assets of the scheme, separately from those of the company. The company is responsible for the pensionable costs incurred in respect of the company's employees. The pension schemes were fully funded by Surrey County Council prior to transfer. The company's share of the scheme's change in obligations between 18 August 2014 and 31 March 2015 is £1,215,000 and £28,000 in the year ended 31 March 2016 with a net liability of £536,000 as at 31 March 2015. Surrey County Council have provided an indemnity in relation to pension liabilities.

The service cost charged to the profit and loss account for the period was £330,000 and net finance cost £27,000 period was £330,000 and net finance cost £27,000. The actuarial loss for the period charged to the statement of total recognised gains and losses was £363,000.

	2016	2015
	£	£
Scheme assets	5,183,000	4,707,000
Scheme obligations	<u>(6,252,000)</u>	<u>(6,280,000)</u>
	<u>(1,069,000)</u>	<u>(1,573,000)</u>
Net liability at transfer - obligation of Surrey County Council	(1,037,000)	(1,037,000)
Net liability arising since transfer	<u>(32,000)</u>	<u>(536,000)</u>
	<u>(1,069,000)</u>	<u>(1,573,000)</u>

Reconciliation of opening and closing balances of the defined benefit obligation

	2016	2015
	£	£
Defined Benefit obligation at the start of the period	6,280,000	5,065,000
Current Service cost	570,000	330,000
Interest Expense	219,000	126,000
Contributions by plan participants	134,000	82,000
Actuarial losses (gains)	(959,000)	677,000
Losses (gains) on curtailments	<u>8,000</u>	<u>-</u>
Defined Benefit obligation at the end of the period	<u>6,252,000</u>	<u>6,280,000</u>

Surrey Choices Limited

Notes to the Financial Statements
For the year ended 31 March 2016

Pension (continued)

Reconciliation of opening and closing balances of the fair value of plan assets

	2016	2015
	£	£
Fair value of plan assets at the start of the period	4,707,000	4,028,000
Income Interest	162,000	99,000
Actuarial losses (gains)	(110,000)	314,000
Contribution by the Employer	290,000	184,000
Contribution by plan participants	134,000	82,000
Fair value of plan assets at the end of the period	<u>5,183,000</u>	<u>4,707,000</u>

Defined benefit costs recognised in profit or loss

	2016	2015
	£	£
Current service cost	570,000	330,000
Net interest cost	57,000	27,000
Losses (gains) on curtailments	8,000	-
Defined benefit costs recognised in profit and loss account	<u>635,000</u>	<u>357,000</u>

Defined benefit costs recognised in other comprehensive income

	2016	2015
	£	£
Return on plan assets (excluding amounts included in net interest cost) - gain (loss)	(110,000)	314,000
Effects of changes in the demographic and financial assumptions underlying the present value liabilities - gain (loss)	<u>959,000</u>	<u>(677,000)</u>
Total amount recognised in other comprehensive income - gain (loss)	<u>849,000</u>	<u>(363,000)</u>

Surrey Choices Limited

Notes to the Financial Statements
For the year ended 31 March 2016

Pension (continued)

	2016	2015
Assets		
	%	%
Equities	75	76
Bonds	16	16
Property	7	6
Cash	2	2
Total assets	<u>100</u>	<u>100</u>

Financial assumptions

	2016	2015
Discount rate	3.6%	3.3%
Salary growth rate	3.7%	3.9%
Pension growth rate	2.2%	2.5%
Average life expectancies male	67.5 Yrs	67.5 Yrs
Average life expectancies female	69.6 Yrs	69.6 Yrs

The amount of actuarial gains and losses recognised in the Statement of comprehensive income was £849,000 (2015 - £(363,000)).

The Company expects to contribute £438,000 to its Defined benefit pension scheme in 2017.

Surrey Choices Limited

Notes to the Financial Statements For the year ended 31 March 2016

21. Related party transactions

The Company has taken advantage of the exemption in FRS102 "Related Party Disclosures" from disclosing transactions with other members of the group.

The company has determined that key management includes all executive directors as well as the previous interim chief financial officer.

	2016	2015
	£	£
Remuneration paid to key management	393,298	137,835

22. Ultimate controlling party

The ultimate controlling party of Surrey Choices Ltd is Surrey County Council, which owns the entire issued share capital.

23. First time adoption of FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss. The transition date to FRS 102 was 10 March 2014.

24. Company information

Surrey Choices Limited is a company incorporated in England and Wales with registered office at Fernleigh Day Service, Fernleigh Close, Hersham Road, Walton-on-Thames, KT12 1RD.



Audit & Governance Committee
20 February 2017

Minimum Revenue Provision Calculation

Purpose of the report:

This report informs the Committee of a change in the way the minimum revenue provision is calculated for the Council.

Recommendations:

It is recommended that the Audit & Governance Committee note the change to the calculation in advance of receiving the Council's Statement of Accounts for 2016/17.

Background:

1. The Council has an obligation¹ to make a 'prudent provision' for the repayment of its external debt. This is known as the Minimum Revenue Provision (MRP). This is the method by which local authorities charge their revenue accounts over time with the cost of their capital expenditure which is funded by borrowing.
2. MRP is calculated with reference to the Capital Financing Requirement (CFR), which is the element of previous years' capital expenditure which was not funded by existing council resources, such as capital government grants, capital receipts, reserves or revenue.
3. The increase in the CFR is broken down by asset and spread over the asset life, to derive the annual MRP charge to revenue.
4. Surrey County Council regularly carries out reviews of the MRP policy to ensure that the provision continues to be prudent but does not put unnecessary pressure on the Council's revenue budget. At times of increasing pressure on local authority finances, many Councils are looking at ways to reduce the amount charged to revenue for capital financing costs.
5. The review that has taken place in 2016/17, has been done in consultation with our treasury advisers and once proposals had been prepared these have been discussed with Grant Thornton, the external auditors.

¹ Under the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)*

MRP Calculation:

6. The Department for Communities and Local Government (CLG) issues guidance on the calculation of MRP, including a number of methods which it considers to be prudent. The guidance is clear that authorities are free to devise other methods they consider prudent.
7. Two changes to the historic methodology have been implemented:
 - to write down the pre-2008 CFR over a 50 year period
 - To use an annuity method of writing down the post-2008 expenditure over the life of the assets funded by borrowing.
8. The revised methodology will ensure that:
 - The pre-2008 CFR is financed in full over a shorter period. The revised approach will result in the pre-2008 CFR being fully financed by 31 March 2066 whilst the historic methodology leaves £49.98m outstanding at the same date.
 - The historic methodology linked the write down of pre-2008 expenditure to the level of borrowing supported by Government in the Revenue Support Grant calculation. Since 2008 local government funding has changed and grant funding has been steadily reduced, it is no longer considered appropriate to use this as a basis for the calculation.
 - Both the annuity and a straight line method of writing down post 2008 expenditure is allowable under the DCLG guidance.
9. The changes in the calculation are being implemented from the current financial year and remain in line with the MRP policy approved by Council in February 2016.

Conclusions:

10. Under these proposals, the total amount of MRP paid remains the same over the total life of the assets. However, they result in a reduction to the amount charged to revenue in the short to medium term.
11. As outlined in the above sections the proposed MRP policy remains in the Council's opinion a prudent one, in line with CLG guidance. Given the current financial challenges, the debt maturity profile of the Council and the limitations of the historical methodologies, it is felt appropriate to adopt these new proposals for the calculation of the Council's MRP for the current financial year and on an ongoing basis.

Financial and value for money implications

12. The revenue savings resulting from these changes have been incorporated into the current budget planning and have been incorporated into the 2017-20 MTFP.
13. There are no direct value for money implications of this report.

Equalities and Diversity Implications

14. There are no direct equalities implications of this report.

Risk Management Implications

15. There are no direct risk management implications of this report.

Next steps:

16. The revised calculation will be used for the MRP charge for 2016/17. This will form part of the Statement of Accounts for 2016/17 which will be brought to this Committee for approval in July 2017. The MRP policy for 2017/18 taken to full Council in February will also reflect these changes.

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

Contact Details: Nicola.oconnor@surreycc.gov.uk 020 8541 9263
Mobile: 07896 813764, Room G40 County Hall

This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE
 20 February 2017

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since this Committee last considered a Completed Internal Audit Reports item in December 2016 - as attached at Annex A.

Although it is not the Committee's policy to review all Internal Audit reports in detail during the meeting, full copies of the reports summarised have been provided to Members of the Committee and are available through the Members' on-line library.

RECOMMENDATIONS:

The Committee is asked to consider whether there are any audit reports or management action plans that it would like to review further and whether there are any matters they wish to refer to the relevant Scrutiny Board.

BACKGROUND:

- 1 At the conclusion of each audit review a report is issued to the responsible manager who is asked to complete an action plan responding to the recommendations.
- 2 The return of a management action plan (MAP), which in the auditor's opinion adequately addresses the report findings and recommendations, signals the end of the audit process. Any follow up work required forms part of future audit plans at the appropriate time.
- 3 There have been seven audit reports issued since the last report to this Committee in December 2016. The table below lists those audits and shows the audit opinion and number of high priority recommendations included in the Management Action Plan.

	Audit	Opinion	Number of recommendations rated as High Priority
1	Premises Security	Significant Improvement Needed	15
2	SAP Application and Interface Controls	Some Improvement Needed	0
3	Cyber Security	Some Improvement Needed	0
4	Trust Funds Follow-up	Effective	0
5	Health and Safety	Significant Improvement Needed	8
6	Information Governance	Some Improvement Needed	0
7	Highways Contract Management -Flood Prevention	Significant Improvement Needed	6

- 4 Annex A contains more details of the audits listed above and shows for each the:
- title of the audit
 - background to the review
 - key findings
 - overall audit opinion
 - key recommendations for improvement
- 5 The Committee will be aware that in order to respond to general Member interest in Internal Audit reports it has previously been agreed that a list of completed reports will be circulated to all Members of the County Council on a periodic basis.
- 6 In order to fully discharge its duties in relation to governance the Committee is asked to review the attached list of recently completed Internal Audit reports and determine whether there are any matters that it would like to review further or if it would like to suggest another Scrutiny Board does so.
- 7 The Committee is advised that the Premises Security audit report was considered at a meeting of the Council Overview Board on 1 February 2017 when Internal Audit confirmed that the agreed management action was appropriate and that there was evidence of progress being made to address the audit findings. Internal Audit agreed to undertake a follow up audit in April 2017 and report back to Council Overview Board should progress not be satisfactory at that time.
- 8 The Health and Safety Audit report was on the agenda for the meeting of the Statutory Responsibilities Network on 13 February 2017.

IMPLICATIONS:

- 9 Financial
Equalities
Risk management and value for money
- 10 There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed Internal Audit Reporting and Escalation Policy

WHAT HAPPENS NEXT:

- 11 See Recommendations above.

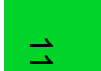
REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor, Strategy and Performance

CONTACT DETAILS: telephone: 020 8541 9190 e-mail sue.lewry-jones@surreycc.gov.uk,

Sources/background papers: Final audit reports and agreed management action plans

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Premises Security	Recent events globally have sparked a heightened awareness of the need to address Premises Security arrangements across all the council's sites.	<p>The Premises Security policy was dated 2013 and did not cover such aspects as bomb/terrorism threats and consideration of national treat levels.</p> <p>Access to the post room at County Hall could be tightened.</p> <p>Front reception staff had received no terrorism related training/instruction.</p> <p>A large number of 24/7 access passes have been issued (144 for County Hall).</p> <p>The auditor observed many instances at County Hall of employees not wearing passes and tail-gaiting to gain access.</p> <p>Due to a variety of reasons staff passes are not always cancelled in a timely way when people leave the council's employment.</p>	Significant Improvement Needed	<p>Update the premises security policy; consider developing a security plan to be shared with the Police; and, consider assigning someone as a Security Coordinator. (H)</p> <p>The post room door at County Hall to be kept locked at all times. (H)</p> <p>Postroom and front of office staff to be provided with procedures and training on what to look out for and action to take in relation to terrorism threats. (H)</p> <p>Only staff with a direct business need should have a pass allowing 24/7 access to council premises. (H)</p> <p>Access door systems should be fitted in a way where they cannot be left open. (H)</p> <p>Security guidance, together with promoting a changed culture in relation to security awareness should be driven by senior management. (H)</p> <p>A more robust process should be implemented to manage the administration of staff passes for starters and leavers. (H)</p>





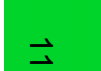
Completed Audit Reports (December 2016 – January 2017)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Premises Security Cont'd	Recent events globally have sparked a heightened awareness of the need to address Premises Security arrangements across all the council's sites.	<p>Where agency staff leave before their contract period, facilities will not know to cancel their access pass unless the manager arranges for the pass to be returned to facilities.</p> <p>Audit testing identified one example of a suspended member of staff whose access pass had not been cancelled. From discussion with HR it was apparent there was no process in place to notify facilities of any suspensions.</p> <p>There is no clear guidance on security over members of the public attending public meetings at County Hall. Sometimes visitors sign in, but sometimes, especially if it is a large group there are escorted without signing in. Visitors are not always required to sign out.</p> <p>The CCTV system at County Hall requires improvement and the adequacy of the CCTV set up at Consort House, Fairmount House and Quadrant Court should be assessed by a specialist.</p>	Significant Improvement Needed	<p>A periodic review of current agency staff should be undertaken to confirm building access passes continue to be required. (H)</p> <p>Update procedures to ensure the facilities team are informed promptly of any employee being suspended. (H)</p> <p>Entry/exit arrangements for members of the public attending meetings should ensure records reflect each person entering and exiting the building. (H)</p> <p>Security to be strengthened between the public gallery at County Hall and secure areas of the building. (H)</p> <p>The alarm system at County hall should be set up so that different areas can be independently alarmed. (H)</p> <p>CCTV at County Hall to be improved and a review of other sites performed for adequacy. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
SAP Application and Interface Controls	<p>The SAP application supports key Council functions including Finance, Human Resources Payroll and Procurement. The modules in use are the Enterprise Resource Planning ('ERP'), Supplier Relationship Management ('SRM') and Business Information Warehouse ('BIW').</p> <p>Four systems were selected for testing: (ContrOCC - ICS (Children's Social Care), SIMS (Schools), Paritor (Surrey Arts) and Maximo (Highways).</p>	<p>A review of user access to ensure that user functions are in line with job descriptions was not performed in the current year. Where user access reviews are not performed, there is an increased risk that inappropriate accounts on the system are not restricted or disabled. This in turn increases the risk of unauthorised access to the application.</p> <p>Files are transferred from ContrOCC to SAP server via unsecure FTP and are in csv format, these files can be edited before they are manually uploaded. Reconciliations performed between ContrOCC and SAP are not signed off.</p> <p>SIMS feeds into SAP via a monthly electronic income and expenditure report from schools. Manual intervention is required for the interface to be completed, the SAP Interface Developer is responsible for uploading the files on SAP, files are transferred to SAP via unsecure FTP and are in csv format, and the files can be edited before they are uploaded on SAP. Payment and credit files can be changed before they are sent for processing.</p> <p>The auditor did not identify any issues in respect of the Paritor and Maximo interfaces with SAP.</p>	Some Improvement Needed	<p>Periodic and formalised review of user accounts should be performed to ensure the appropriateness of the accounts active on the system. The review should also ensure that user functions are in line with their job descriptions. (M)</p> <p>Implement secure FTP to transfer files from ContrOCC to SAP server; and ensure reconciliations between ContrOCC and SAP are reviewed and signed off by a senior manager within the CSF Social Care Department before processing. (M)</p> <p>The SAP / SIMS interface should be reviewed and consideration given to automation to avoid manual intervention; and secure FTP should be implemented for the transfer of files from Babcock4S to the SAP server. (M)</p>



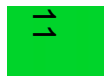


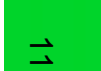
Completed Audit Reports (December 2016 – January 2017)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Cyber Security	<p>In April 2014 Central Government introduced the “Cyber Essentials” Scheme to provide clarity to organisations on what good cyber security practice is and the steps they need to follow to help manage cyber risks.</p> <p>Given the nature of the threat, the UK Government believes that action should begin with a core set of baseline controls which all organisations should apply in order to confidently conduct business securely.</p>	<p>Surrey County Council has established a generally robust control framework for managing Cyber Security risks, supported by a range of documented conformance criteria in policies and procedures.</p> <p>The Information and Risk Governance Board cannot easily demonstrate awareness and management of the ICT risk and ownership arrangements of known ICT vulnerability resolution actions.</p> <p>SCC is not currently accredited under the Cyber Essentials Scheme - a government-backed scheme that sets out a good baseline of cyber security suitable for all organisations.</p> <p>While configuration settings were generally satisfactory, neither Logon Success nor Logon Failure auditing are enabled. Also, the intention to audit the “Account Lockouts” by success is being compromised by the current account lockout policy configuration settings and no auditing events have been configured for “Privilege Use” activities.</p> <p>Examination of the IT Security Policy found that the IT password control requirements are clearly defined. However, review of the new world laptop SekChek report noted that the password control configuration settings do not comply with the corporate IT Security Policy.</p>	Some Improvement Needed	<p>The Information and Risk Governance Board should receive and review a summarised report to assist trend analysis and governance over the resolution actions taken to eliminate or mitigate the impacts of known ICT vulnerability risks. (M)</p> <p>Consider joining the Cyber Essentials Scheme (£300 p.a.) to transparently demonstrate the effective cyber security assurance credentials to the general public and other key stakeholders. (M)</p> <p>For system configuration, use should be made of the audit policy and account lockout settings to enforce robust system accountability. (M)</p> <p>Configure password access control settings to enforce compliance with the corporate IT Security Policy. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Trust Funds – Follow-up	<p>Surrey County Council acts as custodian to 44 trust funds, of which 38 are as sole trustee.</p> <p>An audit of trust funds was undertaken in December 2013. Concerns with the findings led to a follow up audit in August 2015. Both audits concluded the council was not making best use of the money within the funds.</p>	<p>In June 2016 the Council Overview Board set up a Task and Finish Group (TFG) to review all trust funds. This resulted in recommendations to Cabinet including transferring the majority of funds where the council is the sole trustee to the Community Foundation for Surrey (CFS). The CFS is a charitable trust which works with donors to give something back to local communities and charitable groups providing vital services to local people.</p> <p>The process to transfer the first tranche of (31) trusts to the CFS is well managed and should enable money from previously dormant trusts to be put back into use for residents.</p> <p>Some trusts remain to be reviewed by the TFG including the Henrietta Parker Trust (£1,287,571) and the Charity of Robert Phillips (£2,011,437)</p>	Effective	No audit recommendations arising.

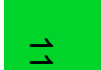




Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Health and Safety (H&S)</p>	<p>Surrey County Council, as an employer and a council has a statutory obligation to comply with the Health and Safety at Work Act 1974 Act and supplementary guidance. The council also has a duty of care to ensure its employees and members of the public are able to conduct their business in a safe environment.</p> <p>This audit considered performance in Adult Social Care; Children, Schools and Families; and, Surrey Fire & Rescue (SFRS) together with related corporate health and safety arrangements. Additionally a review of procedures in place to manage the risk from trees was completed which was an area of concern specifically highlighted to the auditor.</p>	<p>Following the death of a young person on a school bus the coroner raised concerns regarding the provision of basic life support training for drivers.</p> <p>It is not currently possible to generate reports on H&S training from the e-learning system. Analysis of data provided to the auditor suggested over 80% SCC staff have not had recent basic health and safety training. It is not normal practice to provide H&S training to agency staff.</p> <p>There is no framework in place to collate the results of the tree inspection data nor is there any overview of whether the remedial work is being performed in a timely manner. This leaves the council with little or no assurance that the risk from trees is being adequately managed.</p>	<p>Significant Improvement Needed</p>	<p>SCC should review its vetting procedures where drivers and escorts are used to transport children and vulnerable adults to ensure they have received basic life support training. (H)</p> <p>Ensure H&S training records are managed centrally with learning priorities tailored to each individual (including agency and non permanent staff). The system should provide email reminders when follow up/refresher training is required and management overview should be facilitated by enabling reports to be generated of training completed. (H)</p> <p>The Tree Risk Management Strategy 2016 should be formally adopted and implemented by all internal and external parties responsible for managing tree related risk. (H)</p> <p>Develop a uniformed tree risk and tree works response time methodology to be followed by all parts of the organisation including relevant partners. (H)</p> <p>Develop a corporate reporting framework to ensure oversight of tree inspections and completion of remedial works across SCC and relevant partners. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Health and Safety (H&S) Cont'd</p>	<p>Surrey County Council, as an employer and a council has a statutory obligation to comply with the Health and Safety at Work Act 1974 Act and supplementary guidance. The council also has a duty of care to ensure its employees and members of the public are able to conduct their business in a safe environment.</p> <p>This audit considered performance in Adult Social Care; Children, Schools and Families; and, Surrey Fire & Rescue (SFRS) together with related corporate health and safety arrangements. Additionally a review of procedures in place to manage the risk from trees was completed which was an area of concern specifically highlighted to the auditor.</p>	<p>The auditor reviewed ASC H&S Reporting for 2015/16 and found that incidents reported on the ASC H&S Quarterly reports were not consistent with figures reported on the Corporate Scorecard. A total of 1,021 incidents were reported for 2015/16 in the Corporate Scorecards however in the service a total of 938 incidents were reported. A comparison for each quarter was undertaken and only data for one quarter was consistent with that reported by ASC.</p> <p>SFRS did not have access to up to date KPI data relating to “safety event “ injuries for monitoring purposes, limiting the ability of SFRS management to take appropriate action in a timely manner.</p> <p>Examination of OSHENS showed a number of cases categorised as “set up in error” should have been recorded as incidents and therefore subject to appropriate management review.</p>	<p>Significant Improvement Needed</p>	<p>Accident and training data used in the Scorecards and ASC Quarterly H & S Reporting should be factual, consistent and validated before being shared. (H)</p> <p>Information required from “My HR” to compile the quarterly SFRS KPI summary report should be provided in a timely manner. (H)</p> <p>Employees should be encouraged to record all H&S incidents whilst carrying out council related business. It is recommended that the OSHENS system which is accessible on the intranet is used as a mechanism to report this. (H)</p>



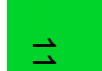


Completed Audit Reports (December 2016 – January 2017)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Information Governance (IG)	<p>Information Governance (IG) is a term relating to the processes and systems used by an organisation to manage the information they hold. This is legislated through the Data Protection Act 1998 (the DPA) and the Office of The Information Commissioner is responsible for enforcing and promoting compliance. This requires that adequate procedures are in place to manage information to ensure that:</p> <ul style="list-style-type: none"> • Confidentiality is respected; • Records are held in secure conditions; and • Information is recorded clearly and accurately, so that it can be easily read and relied upon by others. 	<p>The process for managing Multi Agency Information Sharing Protocol (MAISP) related information could be improved. The auditor found that not all MAISP agreements had been signed.</p> <p>The current Information Risk Governance Board (IRGB) meeting and work programme have not operated in accordance with the agreed Terms of Reference.</p> <p>One of the key objectives for IG was to seek support from the Statutory Responsibilities Network and Directorates to help change the culture towards data and recognise its value through communication campaigns on information security and IG.</p> <p>Data retention information on S-Net was not consistent between the IG teams.</p> <p>Breaches data is currently not available on a real time basis as each team records and maintains its own breaches data.</p>	Some Improvement Needed	<p>An easily accessible register/log of MAISP forms should be maintained to ensure quick reference as well as ensure that a signed agreement exists for every organisation that has signed up to the MAISP. (M)</p> <p>The IRGB terms of reference should be reviewed and updated to agree with current practices and work programmes. This should include monitoring of progress towards GDPR, Information Asset Register and setting out a Privacy Impact Assessment. (M)</p> <p>Appropriate, regular communication campaigns to address regular and emerging issues such as training and data security could work to change attitudes and overall help to promote a change in culture across the organisation. (M)</p> <p>A central hub of data retention information including IICSA requirements should be maintained on S-Net. Any changes should be broadcast through communication campaigns. (M)</p> <p>Breaches data should be recorded and held centrally. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Information Governance (IG) Cont'd	<p>Further compliance is required by Surrey County Council (SCC) to support the Independent Inquiry into Child Sexual Abuse (IICSA) following the letter sent to the Chief Executive by Hon. Lowell Goddard DNZM the former Chair of the Inquiry. The letter required that authorities retain all data relating to allegations of abuse in children.</p> <p>Organisations in the UK will have to comply with the EU's General Data Protection Regulation (GDPR) framework which is due to be implemented by 28 May 2018. Notwithstanding the decision for Brexit, the Authority will need to consider progress towards compliance.</p>	<p>There are currently no governance arrangements in place over IG training as a result the uptake is low across the Council.</p> <p>The S-Net pages for IG continue to be held separately for each of the Corporate, ASC and CSF Teams.</p>	Some Improvement Needed	<p>The Council should ensure that all staff have completed appropriate IG training. (M)</p> <p>Internal and external websites should be regularly maintained to ensure accuracy of information. (M)</p>

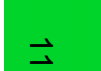


Completed Audit Reports (December 2016 – January 2017)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Highways Contract Management (Lot 5) – 2016/17	<p>The Lot 5 (Flood Prevention) contract includes responsibility for cyclical and reactive gully cleansing, soakaway cleansing, catchpit cleansing and maintenance of an electronic asset register for drainage assets. It was initially let to May Gurney (latterly Kier) in 2010.</p> <p>Performance has remained an issue under the sub-contractor's delivery, and a performance improvement plan is in the process of being agreed. Instances have been highlighted where the integrity of the data provided by the subcontractor has been substandard, and Members remain concerned around perceived shortcomings in delivery.</p> <p>A review of Highways Contract Management was therefore included as part of the 2016/17 Annual Internal Audit Plan.</p>	<p>The contract deliverables have never been completed to schedule. Despite this, the contract is currently in the process of being extended subject to agreement of a Service Improvement Plan. No formal annual review of contractual performance has taken place during the life of the contract, in contravention of contractual provision.</p> <p>The contract does not allow for retention of payment in the event of poor contractor performance. SCC is paying over the contractually agreed rates in order to maintain standards.</p> <p>A number of instances of poor contract management by the contractor were noted. Contractually prescribed audits were not being carried out, and the governance meeting structure does not appear to be effective. Inadequate record keeping by the subcontractor was noted. Officers have to spend considerable time managing the contract when the contractor is paid to do this.</p> <p>From a sample of audit testing, 25% of the gullies the subcontractor claimed to have attended to had not been cleansed.</p>	Significant Improvement Needed	<p>Management should ensure that all contract management provisions specified in current and/or future contracts are correctly followed. Management should ensure that future contractual arrangements allow for performance to be robustly monitored. (H)</p> <p>Whilst it is noted that the decision has been taken to extend the contract, management should ensure that a viable procurement strategy is in place to ensure business continuity at the time of reprocurement, taking account of the lessons learnt during the duration of the current Lot 5 contract. (H)</p> <p>Management should investigate the specific contract management issues raised and ensure that they are remedied by the contractor and/or subcontractor. As part of the contract extension process, management should ensure that the contractor is required to demonstrate robust contract management principles. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Highways Contract Management (Lot 5) – 2016/17 Cont'd</p>	<p>The Lot 5 (Flood Prevention) contract includes responsibility for cyclical and reactive gully cleansing, soakaway cleansing, catchpit cleansing and maintenance of an electronic asset register for drainage assets. It was initially let to May Gurney (latterly Kier) in 2010.</p> <p>Performance has remained an issue under the sub-contractor's delivery, and a performance improvement plan is in the process of being agreed. Instances have been highlighted where the integrity of the data provided by the subcontractor has been substandard, and Members remain concerned around perceived shortcomings in delivery.</p> <p>A review of Highways Contract Management was therefore included as part of the 2016/17 Annual Internal Audit Plan.</p>	<p>There is limited confidence by officers and the auditor as to the accuracy of contractor performance data submitted.</p> <p>The asset database is inaccurate and incomplete. There is a lack of reconciliation procedures between SCC and subcontractor systems.</p> <p>Weaknesses were noted to the systems for recording non-gully asset data (e.g. only 3% of SCC catchpit data is held).</p> <p>Enforcement action against riparian landowners is reactive, not proactive.</p> <p>The subcontractor's main asset database had major system stability and integrity issues during the latter months of 2016.</p>	<p>Significant Improvement Needed</p>	<p>Ensure that the revised joint audit process is fully rolled out across all area teams, and any inappropriate activity robustly challenged. Management should insist that appropriate action is taken by the subcontractor and/or by Kier in relation to any work claimed for which has not been carried out, and should instigate a formal investigation process following any findings. (H)</p> <p>Ensure that Kier adjust performance data as necessary given the result of audit testing carried out by Highways officers and as highlighted by Internal Audit. Management should gain assurance that performance data is being accurately reported and that decisions are being made on the basis of correct information. (H)</p> <p>Ensure that the reconciliation procedures recently developed are consistently implemented, with provision for regular independent reconciliation and verification. (H)</p>



Completed Audit Reports (December 2016 – January 2017)

Annex A

¹ Audit Opinions

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Significant Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

² Audit Recommendations

Priority High (H) - major control weakness requiring immediate implementation of recommendation

Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources

Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control

AUDIT & GOVERNANCE COMMITTEE
20 February 2017

2016/17 Review of the Effectiveness of the System of Internal Audit

SUMMARY AND PURPOSE:

This report sets out the findings and recommendations from the 2016/17 review of the effectiveness of the system of internal audit in Surrey County Council. The agreed Terms of Reference for this review are attached at Annex A

RECOMMENDATIONS:

The Committee is asked to note the findings of this report and consider whether any further action is required.

BACKGROUND:

1. The Accounts and Audit Regulations (England) 2015 removed the requirement that a review of the effectiveness of the Council's internal audit arrangements should be conducted at least annually. Internal Audit's Quality Assurance and Improvement Programme was amended to reflect this change in legislation, although an annual review of the effectiveness of the system of internal audit - notably an assessment of compliance with the Public Sector Internal Audit Standards (PSIAS) - has continued.
2. This year's review has included a self assessment of compliance against the PSIAS as well as qualitative conversations with key stakeholders (both officers and members alike) regarding the effectiveness of Internal Audit within Surrey County Council.
3. The findings of the 2016/17 effectiveness review were reported at Statutory Responsibilities Network on 19 February 2017.

KEY FINDINGS:

Compliance check against PSIAS

4. The UK Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 (and revised in April 2016) and are applicable to all public sector internal audit service providers. Compliance with the PSIAS is mandatory and the Chief Internal Audit should report on the level of conformance in their annual report.
5. As part of the 2016/17 effectiveness review, a self assessment against the PSIAS was completed by the Chief Internal Auditor. The conclusions of the assessment are that

Internal Audit substantially complies with the requirements and there are no significant areas of non conformance that warrant inclusion in the Annual Governance Statement.

6. A small number of instances were noted where there was not strict compliance with the standards and/or where further action is required. These are detailed at Annex B.
7. This assessment against the PSIAS provides assurance that a suitably professional, independent and objective Internal Audit service was provided throughout 2016/17.
8. In conducting the assessment against the PSIAS it is apparent that Internal Audit has performed particularly well in terms of ensuring appropriate anti-fraud arrangements are in place. One member of the team is an accredited counter fraud specialist and during 2016/17 an OrbisIA Fraud workstream has been established which has encouraged greater sharing of knowledge of fraud risks across Orbis partners.

Stakeholder Feedback

9. Qualitative conversations were held with a number of key stakeholders including:
 - The Leader of the Council
 - The Cabinet Member for Business Services and Resident Experience
 - Chairman Council Overview Board
 - Chief Executive
 - Deputy Chief Executive and Strategic Director for Children, Schools and Families
 - Strategic Director for Adult Social Care and Public Health
 - Chief Finance Officer
 - Monitoring Officer
 - Risk and Governance Manager

10. From the above conversations it is apparent that the Internal Audit service within Surrey County Council is highly valued. Comments included:

“first class, really helpful and really useful”

“incredibly useful”

“very systematic and very thorough....high standards across the group”

“bring an objective “external” view of the area being looked at with a person with expertise following a clear methodology”

“all Internal Audit Reviews have had the right impact and the audit process itself has been reasonable”

11. The aspects of Internal Audit work that were particularly valued were as follows:
 - Internal Audit activity is linked to the organisation’s priorities to encourage improvement
 - Assurance provided on the internal control environment (especially for key financial systems)
 - Independent view provided by Internal Audit
 - High quality of Internal Audit staff and audit reports
 - Robust approach taken and a “tell it as it is” style of reporting
 - Follow-up of agreed management action plans through the Audit & Governance Committee and Scrutiny Boards provides appropriate level of governance
 - Audit representation on key governance forums such as Investment Panel and Strategic Risk Forum

- Services now understand how they can work with Internal Audit to ensure improvement in their area
- Involvement in investigative work as requested on an adhoc basis
- Raising fraud awareness and providing support where fraud is suspected
- The flexible approach taken in scoping and reporting audit work in some of the more sensitive areas

12. The key messages/challenges for further consideration were as follows:

- Need to ensure key officers – notably the Chief Internal Auditor, the Monitoring Officer and the Chief Finance Officer – continue to have regular opportunities to discuss governance concerns in a safe environment
- Need for the audit plan to include sufficient contingency to allow auditors to have the flexibility to react as circumstances require and follow their instincts
- Only conduct audit reviews where it is clear they will add value
- There is an opportunity to build on the link between risk registers and the work of Internal Audit
- Less emphasis on compliance auditing and more on improvement/value for money
- Audit activity must be focussed on the things that matter to the council and its residents
- The output from an audit is only as good as its input so it is essential that auditees have the time to feed into the process
- Relationships are key, and face to face meetings with auditees are important
- Auditees can take audit findings quite personally and react defensively
- If audit activity is to have the right impact, the timing of the review is crucial

Orbis – Internal Audit

13. Some specific feedback was provided in relation to Internal Audit as part of the Orbis Partnership relating to the following areas:

- Internal Audit within Finance – From 1 April 2017, the Internal Audit team will no longer be part of the Strategy and Performance Service, but will become part of Orbis Finance. While most key stakeholders did not express a view on this, one did raise some concerns over this move.
- Role of Chief Internal Auditor – There will be changes to the Finance Leadership Team, as a result of the move towards integration under Orbis, and this will impact on the role of the Chief Internal Auditor. Key stakeholder feedback emphasised the need for the Chief Internal Auditor to continue to have direct access to the Chief Executive and Leader of the Council.
- Management Action Plans – the OrbisIA team are currently piloting a new format Management Action Plan. This new approach will see a move away from formal audit recommendations, with the onus on the service to suggest what actions they intend to take to address audit findings. Key stakeholders were supportive of this approach which encourages greater ownership of management actions.
- Sharing Best Practice and Expertise – Stakeholders recognised the opportunities provided through Orbis for better sharing of best practice and audit expertise.

KEY ACTIONS IN REPSONSE TO FINDINGS:

14. The following actions will be taken to address the findings from this review:

- Complete the actions identified at Annex B in relation to the PSIAS
- The 2017/18 audit planning process will take a risk based approach to ensure audit activity is focussed on what matters to the organisation
- On-going service liaison and audit management review will ensure audits included in the plan remain relevant or are cancelled if this is no longer the case
- Service liaison meetings to be used to ensure the audit activity takes place at a time which ensures the audit can have an impact and effect improvement
- Service management to ensure the audit process is supported through timely provision of information, access to staff etc
- The Risk and Governance Manager to be invited to an Internal Audit team meeting to discuss the audit plan for 2017/18 with a view to discussing opportunities to build on the link between risk registers and audit activity
- Key findings and actions arising from this review to be discussed at an Internal Audit team meeting

FOLLOW-UP OF PREVIOUS REVIEW RECOMMENDATIONS:

15. The 2015/16 Effectiveness Review did not include any recommendations for improvement.

CONCLUSIONS:

16. Internal Audit in the Council continues to be well regarded and given a high priority by those charged with good governance.
17. During 2016/17 the Surrey County Council Internal Audit team has worked closely with the Internal Audit Teams from East Sussex County Council and Brighton and Hove City Council to share best practice and align working processes. This work will continue through 2017/18 as OrbisIA moves towards a fully integrated team by March 2018.

IMPLICATIONS:

Financial

There are no direct financial implications arising from this report

Equalities

There are no direct equalities implications arising from this report

Risk management

An effective system of internal audit complements good risk management across the Council

WHAT HAPPENS NEXT?

The findings from this review will help inform the Council's 2016/17 Annual Governance Statement.

An update on progress in implementing the follow-up actions arising from this review will be included in the Internal Audit Annual Report which will be presented to the Audit and Governance Committee on 27 June 2017.

The 2017/18 review of the effectiveness of Internal Audit will include an external assessment of compliance with the PSIAS

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor

CONTACT DETAILS: telephone: 020 8541 9190 e-mail: sue.lewry-jones@surreycc.gov.uk
Sources/background papers: Public Sector Internal Audit Standards and Internal Audit Quality Assurance and Improvement Programme.

This page is intentionally left blank

ANNEX A**TERMS OF REFERENCE****Effectiveness of the System of Internal Audit 2016/2017****BACKGROUND**

The UK Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013 (and revised in April 2016) require the Chief Internal Auditor to maintain a quality assurance and improvement programme that includes periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. The PSIAS require that once every five years an assessment is performed by a suitably qualified external assessor. It is planned for an external assessment to be undertaken next year (2017/18).

The Audit and Governance Committee, as the Committee charged with responsibility for Internal Audit, considers that it is best placed to sponsor such a review of the effectiveness of Internal Audit arrangements on behalf of Surrey County Council. The S151 Officer has a responsibility to support the Internal Audit function as a key vehicle to ensure good stewardship and has endorsed the Terms of Reference for this review.

PURPOSE OF THE REVIEW

To review the effectiveness of the current system of Internal Audit in Surrey County Council. The findings from this review will be used to inform the integration of the Internal Audit Service under Orbis.

WORK TO BE UNDERTAKEN

A self assessment of compliance against the PSIAS and the Local Government Application Note.

Qualitative conversations to be held with key stakeholders (both officers and members) regarding the effectiveness of Internal Audit within Surrey County Council, with a focus on:

- what should be maintained or increased
- what may be reduced or stopped
- what should be improved

OUTCOMES

The findings of this review will be included within the Internal Audit Annual Report to be presented at a meeting of the Audit and Governance Committee in June 2017. Any significant areas of non conformance with the PSIAS must be referred for inclusion in the 2016/17 Annual Governance Statement.

REPORTING ARRANGEMENTS

Auditor:	Sue Lewry-Jones
Reporting to:	Audit and Governance Committee

This page is intentionally left blank

2016/17 Review of the Effectiveness of Internal Audit

ANNEX B

PSIAS Checklist – Comment/Action required

	PSIAS Requirement	Comment/Action Proposed by the Chief Internal Auditor	Timescale
1	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	<u>Action:</u> Update the charter to reflect the updated (April 16) PSIAS. Present the updated charter to the Statutory Responsibilities Network (deemed to be “senior management” for the PSIAS) prior to it being presented to the Audit and Governance Committee (“the board”).	27 March 2017
2	Does the CAE report to an organisational level equal or higher to the corporate management team?	<u>Comment:</u> The Chief Internal Auditor currently reports to the Head of Strategy and Performance for line management responsibilities and to the Section 151 Officer for “assurance” purposes. From April 17, Internal Audit will move as part of Orbis, to become part of Finance. It is envisaged that the Head of OrbisIA will report to the Director of Finance who is a member of the corporate management team. <u>Action:</u> No further action required	n/a
3	The board (in SCC this is the Audit and Governance Committee): <ul style="list-style-type: none"> • approves the internal audit budget and resource plan? • approves decisions relating to the appointment and removal of the CAE? 	<u>Comment:</u> Although Audit & Governance approve the annual audit plan which includes the allocated number of audit days, responsibility for approving the budget rests with full Council. The Audit and Governance Committee does not approve the decision to appoint or remove the Chief Internal Auditor, however the Constitution of the Council does state that : the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor. <u>Action:</u> No further action required	n/a

	PSIAS Requirement	Comment/Action Proposed by the Chief Internal Auditor	Timescale
4	<p>Does on - going performance monitoring include comprehensive performance targets?</p> <p>Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?</p> <p>Does the CAE measure, monitor and report on progress against these targets?</p>	<p><u>Comment:</u> The Internal Audit Annual Report includes a review of the actual days spent per audit area against the original plan, a review of deferred or cancelled audits and a summary of overall Customer Satisfaction Survey ratings. Progress on implementing audit recommendations is also reported bi-annually.</p> <p><u>Action:</u> Performance targets to be agreed as part of a revised Quality Assurance and Improvement Programme for OrbisIA</p>	27 March 2017
5	<p>Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?</p> <p>Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?</p>	<p><u>Comment:</u> Internal Audit reports are presented to each meeting of the Audit and Governance Committee. The Chief Internal Auditor attends each agenda planning and callover meetings with the Chairman of the Audit & Governance Committee to discuss the requirements of the Board.</p> <p>The Chief Internal Auditor also holds regular one-to-one meetings with the Chief Executive.</p> <p>The Chief Internal Auditor is confident that in the event of any high-risk or urgent issues arising, they have suitable access to both senior management and the Board to ensure timely communication.</p> <p><u>Action:</u> The Chief Internal Auditor to seek feedback from Statutory Responsibilities Network on current arrangements re frequency/content of reporting of significant risk exposures and control issues including fraud risks and governance issues.</p>	13 February 2017



Audit & Governance Committee
20 February 2017

Audit & Governance Committee – Annual Report 2016

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's Annual Report.

INTRODUCTION:

The attached Annual Report covers the work of the Audit & Governance Committee during the period January to December 2016. It provides a summary of work undertaken by the Committee, highlights how the committee engaged with others during the year, and looks ahead at the Committee's focus for 2017.

RECOMMENDATION:

The Committee is asked to review the report and agree any amendments it wishes to include in the final version.

REPORT CONTACT: Angela Guest, Planning & Regulatory Committee
Manager
020 8541 9075
angela.guest@surreycc.gov.uk

Sources/background papers: None

This page is intentionally left blank

Audit & Governance Committee

Annual Report 2016



Introduction

I am pleased to present this year's Annual Report of the Audit & Governance Committee. The committee is accountable to full Council and welcomes scrutiny of its effectiveness in fulfilling its terms of reference and its impact on the improvement of governance, risk and control within the authority. I hope that this Annual Report aids the Council in this task.

This report covers the work of the Audit & Governance Committee during the period **January – December 2016**. In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the committee and how the committee has engaged with others. In particular, I would like to draw attention to the work of the committee on raising the profile of Internal Audit with Members, while highlighting the findings of individual audits and tracking progress with actions coming out of those audits. The report ends with a look forward to 2017 and the committee would welcome any feedback from Members of the Council on the themes identified.

Stuart Selleck
Chairman
Audit & Governance Committee

Contents

The Role of Audit & Governance Committee	3
Membership of the Committee	7
Officer support to the Committee	10
Engaging with others	11
Next year's focus	12

The role of the Audit & Governance Committee

Page 171

CIPFA (the Chartered Institute of Public Finance and Accountancy) defines the purpose of an audit committee as:

“...to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”¹

Therefore, the committee is primarily concerned with assuring itself, and advising the Cabinet and County Council as necessary, that the Council's policies are being implemented and that appropriate systems are in place which provide adequate controls over the Council's resources and assets to prevent the risk of loss through fraud and corruption. It is not the role of the Audit and Governance Committee to be responsible for the arrangements.

An audit committee should be independent of the Cabinet and Scrutiny functions of the authority, have clear reporting lines and rights of access to other committees (primarily the Cabinet and County Council), and its members should be properly trained to fulfil the role. The committee's terms of reference is listed below with a summary of work undertaken:

¹ CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police

Statement of Purpose

The Council recognises the importance of undertaking scrutiny of the management of the internal control systems and the Audit & Governance Committee provides an independent and high-level focus on audit, governance and financial accounts matters.

Terms of Reference	Summary of work and outcomes
<p>Regulatory Framework</p> <ul style="list-style-type: none"> a) To monitor the effective development and operation of the risk management and corporate governance arrangements in the council. b) To monitor the effectiveness of the council's anti-fraud and anticorruption strategy, including the assessment of fraud risks. c) To monitor compliance with the council's corporate governance framework and advise or make recommendations to the Cabinet or County Council as appropriate. d) To review the Annual Governance Statement and commend it to the Cabinet. e) To conduct an annual review of the effectiveness of the system of internal audit. f) To provide oversight to the Annual Report of the Council. g) To make proposals to appropriate Select Committees on suggested areas of scrutiny. 	<ul style="list-style-type: none"> • Reviewed and commended the Council's key risk management and governance policy papers, including: the Council's Annual Report; the Risk Management Policy Statement and Plan; the Code of Corporate Governance; the Governance Strategy and the Annual Governance Statement. • Regularly reviewed the development and operation of the Council's risk management and corporate governance arrangements. Also, regularly monitored the Leadership Risk Register. • The committee received six monthly reports from the Statutory Responsibilities Network which were presented by, and discussed with, the Chief Executive. • Reviewed the work of Internal Audit in countering and raising awareness of fraud risk. • Conducted an annual review of the effectiveness of the system of internal audit.

Terms of Reference	Summary of work and outcomes
<p>Audit Activity</p> <ul style="list-style-type: none"> a) To consider the Chief Internal Auditor’s annual report and opinion, a summary of internal audit activity and the adequacy of management responses to issues identified. b) To approve the annual Internal Audit & Inspection plan and monitor its implementation. c) To approve the Internal Audit Charter. d) To consider periodic reports of the Chief Internal Auditor and internal audit activity. e) That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor. f) To consider and comment upon the reports and plans of the external auditor, including the annual audit letter. 	<ul style="list-style-type: none"> • Approved the Internal Audit Plan 2016/17 and Internal Audit Charter. • Regularly reviewed the work and performance of Internal Audit. • Considered internal audit reports and management responses. • Followed up on a number of internal audit reports and progress against the management actions plans with Cabinet Members, Scrutiny Boards and service officers, including: Property Asset Management System, Trust Funds, Social Care Debt. • The committee was careful to ensure that it worked in collaboration with Scrutiny Boards, avoiding duplication and referring issues on when appropriate. • Reviewed a number of reports from the external auditor Grant Thornton.

Terms of Reference	Summary of work and outcomes
<p>Accounts</p> <ul style="list-style-type: none"> a) To consider and approve the annual statement of accounts and the Surrey Pension Fund accounts. b) To review the Council's Treasury Management strategy and consider periodic reports of treasury management activity. c) To undertake statutory functions as required on behalf of the fire fighters' pension schemes. 	<ul style="list-style-type: none"> • Considered and approved the Statement of Accounts for the Council and the Surrey Pension Fund. • Considered the Statement of Accounts for Babcock 4S. • Considered the audited Statement of Accounts for SE Business Services. • Considered the audited Statement of Accounts for Halsey Garton. • Reviewed treasury management activity.
<p>Ethical Standards</p> <ul style="list-style-type: none"> a) To monitor the operation of the Members' code of conduct. b) To promote advice, guidance and training for Members and co-opted members on matters relating to the code of conduct. c) To ensure the Council's complaints procedures operate effectively. d) To grant dispensations to Members (including co-opted members) from requirements relating to interests set out in the Members' Code of Conduct. 	<ul style="list-style-type: none"> • Reviewed complaints handling performance for the Council. • Reviewed an update on whistleblowing activity. • No dispensations were requested or granted in 2016. • Reviewed the online gifts and hospitality procedure.

Membership of the committee

The Audit & Governance Committee is composed of six elected Members from across the political spectrum.

It is recommended as good practice to have an audit committee which has a good depth of knowledge and experience. A Knowledge & Skills Assessment (based on CIPFA's knowledge and skills framework), undertaken by committee members in 2014 shows that they bring to the committee broad experience and knowledge of audit, risk management, relevant legal issues, project management and relevant service and local governance knowledge.

Full committee training has been provided this year on local authority accounts, treasury management and risk culture.

Current Membership:



Stuart Selleck, a member of the Residents' Association/Independent Group of councillors, became Chairman of the committee in May 2015, taking over from outgoing Chairman Nick Harrison. The Council's Constitution specifically sets out that the role of Chairman may be filled by a Member from one of the minority groups. CIPFA recommends that in order to promote objectivity and increase an audit committee's standing in the eyes of the public, the chairman should not be a member of the executive and the committee should be independent from the scrutiny function. To help maintain the Audit & Governance Committee's independence, Stuart Selleck is not a member on any of the Council's scrutiny committees. He is a member of the Surrey Pension Fund Committee.

Denis Fuller, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009 and became Vice-Chairman in May 2015. Denis Fuller is also a member of the Education & Skills Board.





Bill Barker, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2005. He was Vice-Chairman of the Committee for 2005/06 and then reappointed as Vice-Chairman of the Committee 2009 to May 2015. Bill Barker is also a member of the Surrey Pension Fund Committee and the Wellbeing and Health Scrutiny Board.

Will Forster, a member of the Liberal Democrat Group, has been a member of the Audit & Governance Committee since May 2013.



Tim Hall, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. Tim is also Chairman of Planning & Regulatory Committee and a member of the Wellbeing and Health Scrutiny Board.



Saj Hussain, a member of the Conservative Group, joined the committee in May 2015. Saj is also a member of the Social Care Services Board and the Resident Experience Board.



Attendance:

Attendance at Audit & Governance Committee has been good, as evidenced below:

Page 177

Member	Total expected attendances	Total attendances	Percentage
Stuart Selleck	6	5	83%
Denis Fuller	6	6	100
Bill Barker	6	6	100
Will Forster	6	4	67%
Tim Hall	6	6	100
Saj Hussain	6	6	100

Officer support to the committee

The Section 151 Officer

The Section 151 Officer, Sheila Little, has provided key support to the Audit & Governance Committee. The Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. CIPFA best practice states that a core Chief Finance Officer responsibility within an authority is the support of the audit committee.

The Section 151 Officer or her representative Kevin Kilburn, with the support of the Financial Reporting Team, has provided reports and training in relation to the Statement of Accounts, external audit activity and financial management. They have attended every Audit & Governance Committee meeting and ensured that the Committee has received the information and advice that it needs to do its job effectively.

Chief Internal Auditor

The Chief Internal Auditor, is a role defined by CIPFA as ‘...a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee’. At Surrey County Council, the Chief Internal Auditor, Sue Lewry-Jones has supported the Audit & Governance Committee in relation to internal audit activity and the regulatory framework. The Chief Internal Auditor sits within the Strategy & Performance Service and reports to the Assistant Director, Strategy & Performance.

Risk & Governance Manager

The Risk & Governance Manager, Cath Edwards, is the Council’s lead officer for coordinating risk management arrangements and monitoring the annual review of governance. The Audit & Governance Committee have received regular reports on governance action plans and reviewed the Leadership Risk Register at each meeting.

Pension Fund & Treasury Manager

Phil Triggs is the Council’s Strategic Manager - Pension Fund and Treasury. The Committee is responsible for reviewing the Council’s Treasury Management strategy on an annual basis as well as approving the Surrey Pension Scheme accounts.

External Audit

Grant Thornton is the County Council's appointed external auditors and operates under the Local Audit & Accountability Act 2014 and a code of practice approved by Parliament. The appointed auditor for Surrey County Council is Andy Mack and his primary responsibility is to give his opinion on whether the Council's accounts give a true and fair view of the Council's financial transactions. Grant Thornton also annually assesses the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Engaging with others

Engaging with the Leadership

The Chairman of Audit & Governance Committee has had regular meetings with senior managers across the Council during 2016.

Page 179 The Chief Executive attended the Audit & Governance Committee meetings on 22 February and 26 September 2016 to give updates on the Statutory Responsibilities Network.

The Leader of the Council and the Deputy Chief Executive attended the Audit & Governance Committee on 26 May 2016 to present the Annual Governance Statement. The Annual Governance Statement is the Council's comprehensive assessment of the governance arrangements and the internal control environment across all Council activities. It is signed and jointly owned by both the Chief Executive and Leader. The Deputy Chief Executive and Senior Principal Accountant also attended the committee on 25 July 2016 to present the Annual Report of the Council.

Making recommendations

The Committee has made a number of formal recommendations to Cabinet and the Council as well as drawing attention to matters of concern, without formal recommendation.

All recommendations, referrals to other individuals and bodies, and other actions (including requests for further information) are followed up through the use of a recommendations tracker which is reviewed at every meeting of the Audit & Governance Committee.

Wider Council engagement

Since 2009, an Audit & Governance Committee Bulletin has been produced. The Bulletin was originally introduced to help keep Members up-to-date with issues relevant to the Committee's remit between meetings. Over time the Bulletin has evolved to include more information such as updates from the Council's Finance, Policy & Performance and Adult Social Care services, as well as linking to useful websites. To help raise the profile of the Committee's work, the Bulletin is now published alongside agendas on the public website and is available in the [online library](#).

Working with Select Committees

During 2016, 52 internal audit reports were issued. The working protocol with Scrutiny Boards is that all reports categorised as Unsatisfactory or Significant Improvement Needed, or those with High Priority recommendations are considered by the relevant Scrutiny Board. 16 (31%) of the reports were categorised as such. Scrutiny Boards have engaged well with this process and have either formally considered the Internal Audit Report and Management Action Plan progress at their meetings or informally monitored progress with Internal Audit recommendations. In October 2016 members of the Audit & Governance Committee attended the Social Care Services Board to take part in the scrutiny of Social Care Debt and feeding in the concerns of the committee.

Next year's focus

The Audit & Governance Committee will continue to review and challenge the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management throughout 2017. It will also focus on Members knowledge and skills assessment with appropriate training of new Members of the Committee following the County election in May 2017.

AUDIT & GOVERNANCE COMMITTEE**20 February 2017****TREASURY MANAGEMENT STRATEGY 2017/18****SUMMARY AND PURPOSE:**

This report sets out the council's treasury management strategy for 2017/18, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential Indicators to 2019/20, in accordance with the requirements of the CIPFA Prudential Code.

RECOMMENDATIONS:

It is recommended that the Committee approve the content of the Treasury Management Strategy for 2017/18.

TREASURY MANAGEMENT STRATEGY 2017/18:

1. Treasury management is defined as the management of the organisation's cash flows, banking, money market and capital market transactions, the effective management of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.
2. The Council's Treasury Management Strategy is shown as Annex 1 with related appendices 1-5.

IMPLICATIONS:

- A) Financial
There are no direct financial implications.
- B) Equalities
There are no direct equality implications.
- C) Risk management and value for money
Set out in Annex 1

WHAT HAPPENS NEXT:

- i. The Pension Fund & Treasury Team will monitor borrowing and cash investment and will continue to update this Committee as appropriate.
 - ii. In line with the requirements of CIPFA's Code of Practice for Treasury Management, a half-year monitoring report and full-year report for 2017/18 will be presented to the committee.
-

REPORT AUTHOR:

Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)

CONTACT DETAILS:

Phil Triggs 020 8541 9894 – phil.triggs@surreycc.gov.uk

Sources/background papers:

CIPFA Code of Practice for Treasury Management in the Public Services (Revised)

This page is intentionally left blank

Treasury Management Strategy Statement and Prudential Indicators 2017/18 to 2020/21

Key issues and decisions

To set the Council's prudential indicators for 2017/18 to 2020/21, approve the minimum revenue provision (MRP) policy for 2017/18 and agree the treasury management strategy for 2017/18.

Introduction

- 2.1. Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changes in market conditions, regulation, and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the County Council before the beginning of the financial year. This annex sets out updated versions of the Council's treasury management strategy statement and Appendix 1 sets out the Council's treasury management policy statement.
- 2.2. On 12 July 2016, as a result of changes in the economic and regulatory environment, specifically the combination of increased counterparty risk (less security arising from new bail in regulations) and further downward pressure on the interest rate environment, a revised treasury management strategy was approved by full council. This resulted in the adoption of a more focused strategy of internal borrowing over the short term and a move away from long term borrowing towards short term borrowing in order to minimise borrowing costs and unnecessary cash balances. A revised strategy may be brought to full council for approval should circumstances demand.
- 2.3. Outstanding long term debt has stayed constant during 2016/17. Financial and geopolitical concerns (including the pending UK exit from the EU and the monetary policy response from the Bank of England) have led to a sharp dip in gilts yields and therefore the cost of long term and short term debt, and has thus validated the revised strategy.
- 2.4. The proposed position can be summarised as follows.
 - A continuation of the existing strategy to take advantage of the unprecedented low interest rates to borrow externally only when required for liquidity purposes and for the short term, whilst minimising surplus cash balances;
 - Maintain the existing counterparty, duration and investment instrument criteria for the management of any surplus cash balances;
 - In addition, a review of the calculation of the annual Minimum Revenue Provision (MRP) has been undertaken during 2016/17. Changes to the method of calculation are proposed in the policy (Appendix 5). The revised calculation continues to ensure that the Council makes a prudent provision for the repayment of its external debt but does not put unnecessary pressure on the Council's revenue budget.

Reporting requirements

- 2.5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actual outturn:
- treasury management policy, strategy statement and prudential indicators report (this report), consisting of:
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy, indicating how the Council intends to fulfil its duty to make a prudent provision to set aside resources over time to repay the borrowing incurred to finance capital expenditure;
 - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an investment strategy (the parameters on how investments are to be managed).
 - mid year treasury management update reports, consisting of:
 - update of progress on treasury and capital position;
 - amendment of prudential indicators where necessary;
 - a view on whether the treasury strategy is on target or whether any policies require revision.
 - an annual treasury management outturn report
 - details of the actual prudential and treasury indicators and actual treasury operations compared with the estimates within the strategy.
- 2.6. The treasury management policy, strategy statement and prudential indicators report is required to be adequately scrutinised before being recommended to the County Council. This role is undertaken by the Chairman of the Audit and Governance Committee.
- 2.7. The Council employs Arlingclose as its advisor on all treasury aspects. The monitoring reports will update the Audit and Governance Committee on Arlingclose's progress and performance in advising council officers.

Treasury management strategy for 2017/18

- 2.8. The strategy for 2017/18 covers two main areas:
- Capital:
 - the capital plans and the prudential indicators;
 - the minimum revenue provision (MRP) strategy.

- Treasury Management:
 - the current economic position;
 - the borrowing strategy;
 - treasury indicators which limit the treasury risk and activities of the Council;
 - the investment strategy; and
 - creditworthiness policy.

2.9. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Capital

2.10. The capital expenditure plans set out in the budget report presented to full council on 7 February 2017 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

2.11. Capital expenditure can be financed from one or more of the following sources:

- i. Cash from existing and/or new capital resources, e.g., capital grants, capital receipts from asset sales, revenue contributions or earmarked reserves;
- ii. Cash raised by borrowing externally.

2.12. Cash being held for other purposes, e.g., earmarked reserves or working capital, can be utilised in the short term for capital investment. This is known as 'internal borrowing' as there will be a future need to borrow externally once the cash is required for the other purposes.

2.13. Under the CIPFA Prudential Code, an authority is responsible for deciding its own level of affordable borrowing within set prudential indicator limits. Borrowing does not have to take place immediately to finance related capital expenditure and may be deferred or borrowed in advance of need. The Council's primary objective when borrowing is to manage the balance between securing low interest rates, achieving cost certainty over the period for which funds are required, while ensuring that any 'cost of carry' does not place unnecessary pressure on the revenue budget. Cost of carry occurs when cash is borrowed in advance of need and then held in short term investments earning less interest than is being paid to borrow.

2.14. The amount that notionally should have been borrowed is known as the capital financing requirement (CFR). The CFR and actual borrowing may be different at a point in time and the difference is either an under or over borrowing amount. Table 2.1 summarises the Council's position at 31 March 2016, with forward projections:

Table 2.1: Current and projected portfolio position

	2015/16 Actual £m	2016/17 Projected £m	2017/18 £m	2018/19 £m	2019/20 £m
External debt					
Capital Finance Requirement at 31 March	903.8	1,084.0	1,143.7	1,154.7	1,124.8
Less Other Long Term Liabilities	160.5	186.7	182.5	162.7	144.1
Borrowing Requirement	743.3	897.3	961.2	992.0	980.7
Actual External Debt at 31 March	429.3	429.3	429.3	429.3	429.3
Under/(over) borrowing	314.0	468.0	531.9	562.7	551.4
Net Financing Need	-	37.6	50.3	37.6	7.4

- 2.15. The table shows the actual external debt (PWLB, the £10m Barclays loan and balances held on behalf of the Police) against the underlying capital borrowing need, the majority of which is held with the Public Works Loans Board (PWLB). The external debt does not include any short term liquidity loans. The authority has adopted a treasury management strategy that favours fixed rate borrowing to provide certainty over borrowing costs and rates of interest. Net financing need will be met by short term liquidity borrowing.
- 2.16. The Council is currently operating a significantly under-borrowed position. This means that the capital financing requirement has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. At 31 March 2017, the projected level of under-borrowing amounts to £468.0m This strategy is designed to limit the net cost of borrowing by utilising existing balances as well as reducing the overall exposure to counterparty risks by reducing available investment balances.
- 2.17. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the capital finance requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
- 2.18. The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Capital prudential indicators 2017/18 to 2020/21

- 2.19. The Prudential Code plays a key role in capital finance in local authorities. The Prudential Code was developed as a professional code of practice to support local authorities in their decision making processes for capital expenditure and its financing. Local authorities are required by statutory regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.
- 2.20. The Council's capital expenditure plans are the key driver of treasury management activity. The framework of prudential indicators aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. The prudential indicators in this report are calculated for the whole medium term financial plan (MTFP) period. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the statement of accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.
- 2.21. The prudential indicators are set out in Appendix 2.

Minimum revenue provision

- 2.22. The Council is required to repay an element of the capital financing requirement each year through a revenue charge. This is known as the minimum revenue provision (MRP) and is the method by which local authorities charge their revenue accounts over time with the cost of their capital expenditure which is funded by borrowing. The Council has a statutory obligation to make a prudent provision for the repayment of its external debt, the Council's policy on (MRP) is shown in Appendix 5.

Economic Environment

- 2.23. The Treasury Strategy is heavily influenced by the economic environment and particularly in relation to interest rates, for both borrowing and investment. The council employs Arlingclose as an external treasury advisor, one key area is to assist the Council to formulate a view on interest rates. Table 2.2 provides Arlingclose's central case for interest rates.

Table 2.2: Prospects for interest rates

	Bank Base Rate %	PWLB borrowing rates			
		5 year %	10 year %	20 year %	50 year %
March 2017	0.25	1.30	1.75	2.30	2.20
June 2017	0.25	1.25	1.70	2.25	2.15
September 2017	0.25	1.25	1.70	2.25	2.15
December 2017	0.25	1.25	1.70	2.25	2.15
March 2018	0.25	1.30	1.75	2.30	2.20
June 2018	0.25	1.30	1.75	2.30	2.20
September 2018	0.25	1.30	1.75	2.30	2.20
December 2018	0.25	1.35	1.80	2.35	2.25
March 2019	0.25	1.40	1.85	2.40	2.30
June 2019	0.25	1.45	1.90	2.45	2.35
September 2019	0.25	1.50	1.95	2.50	2.40
December 2019	0.25	1.55	2.00	2.55	2.45
March 2020	0.25	1.60	2.05	2.60	2.50

- 2.24. A major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty (subject to some clarification in January 2017) over whether leaving the European Union also means leaving the single market. Negotiations are expected to formally start once the UK triggers Article 50, expected in March 2017 and last for at least two years. Uncertainty over the UK's future economic prospects will therefore remain throughout 2017/18.
- 2.25. The fall and continuing weakness in Sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation (CPI) will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through short term inflation overshoots over the course of 2017/18 when setting interest rates so as to avoid derailing the economy.
- 2.26. Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

- 2.27. Looking overseas, with the US economy and its labour market showing steady improvement, the US Federal Reserve increased interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further monetary action.
- 2.28. The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the French presidential and general elections (April to June 2017) and the German federal elections (August to October 2017) have the potential for upsets.
- 2.29. Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.
- 2.30. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the authority. Returns from cash deposits, however, continue to fall.
- 2.31. The Authority's treasury advisor Arlingclose's central case is for the UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the bank rate look less likely. A negative UK bank rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of sharp falls in GDP growth and concerns over leaving the European Union.
- 2.32. Since the US presidential election, gilt yields have risen, but remain at low levels. The Arlingclose central case is for yields to decline when the Government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility in order to keep long-term interest rates low.
- 2.33. Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. Markets will continue to be monitored carefully and the Council will adopt a pragmatic approach to changing circumstances in relation to its borrowing strategy. Further analysis of the UK and global economic outlook is shown as Appendix 3.

Borrowing strategy

- 2.34. The Authority currently holds £397.2m of long term loans as part of its strategy for funding previous years' capital programmes. The authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.
- 2.35. Given the significant budgetary pressure facing the Council both from sources of funding and service demands, the authority's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio.
- 2.36. The proposed borrowing strategy for 2017/18 will be a continuation of the use of internal and short term external borrowing to meet the capital strategy. With the large gap between short term and long term interest rates likely to continue for the medium term there is a significant advantage for the Council to utilise short term borrowing.
- 2.37. By doing so, the authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates may rise. Arlingclose will assist the authority with this 'cost of carry' and breakeven analysis. Significant changes in current or forecast interest rates may mean that longer term borrowing becomes more cost effective, but this outcome is not expected.
- 2.38. Alternatively, the authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

Sources of borrowing

- 2.39. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except Surrey Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
 - UK Local Authorities and other public bodies.
- 2.40. The Authority has previously raised the majority of its long-term borrowing from the PWLB. For short term borrowing the Council will likely use other sources rather than the PWLB, such as other local authorities, public bodies and pension funds as the cost of borrowing is significantly lower in the short term.

Municipal Bond Agency

- 2.41. The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association (LGA) as an alternative source of funds to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

LOBOs

- 2.42. The Authority held a £10m LOBO (Lender's Option Borrower's Option) loan where the lender had the option to propose an increase in the interest rate as set dates, following which the authority had the option to either accept the new rate or to repay the loan at no additional cost. This LOBO has since been converted into a fixed term, fixed rate loan for the original duration of the instrument and is now classified in the authority's balance sheet as a fixed rate bank loan.

Debt Rescheduling

- 2.43. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury management limits on activity

- 2.44. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function, thereby managing risk and limiting exposure to any adverse movement in interest rates. However, if these are set to be too restrictive, then they will impair the opportunities to reduce costs and improve performance. The indicators are as follows:
- **Upper limits on variable interest rate exposure**
This identifies a maximum limit for the level of debt (net of investments) taken out at variable rates of interest.
 - **Upper limits on fixed interest rate exposure**
This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
 - **Maturity structure of borrowing**
These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 2.45. Cabinet is asked to recommend the Council approves the treasury indicators and limits in Table 2.3.

Table 2.3: Treasury indicators and limits

	2017/18 to 2021/22		2016/17 year end projection	
Upper limits on fixed interest rates	100%		100%	
Upper limits on variable interest rates	25%		0%	
Maturity structure of external borrowing	Lower	Upper	£m	
Under 12 months	0%	50%	0	0%
12 months to 2 years	0%	50%	0	0%
2 years to 5 years	0%	50%	0	0%
5 years to 10 years	0%	75%	10	2%
10 years and above	25%	100%	387	98%
Total external borrowing			397	100%

UK Treasury Management Delegation

2.46. The Treasury Management Scheme of Delegation is set out in Appendix 4.

Investment Strategy

- 2.47. The Authority is currently operating with limited investment funds. The strategy of internal borrowing, supplemented by short term borrowing when necessary has significantly reduced current and forecast investment balances for the year.
- 2.48. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the optimal rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 2.49. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which may feed through to negative interest rates on many low risk, short-term investment options. This situation already exists in a number of other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 2.50. Given the increasing risk and lower returns from short-term unsecured bank investments, the authority will aim to place its surplus cash balances in secure, liquid asset classes during 2017/18. All of the authority's surplus cash is currently invested in short-term deposits with local authorities, money market or enhanced cash funds
- 2.51. The borrowing strategy as outlined will lead to reduced investment balances and a requirement to maintain readily accessible funds to limit the amount of borrowing required.

- 2.52. The Director of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the risks and associated interest rates at the time. All investments will be made in accordance with the Council's treasury management policy and strategy, and prevailing legislation and regulations. If the list of counterparties and their duration or value limits need to be revised, amendments will be recommended to the Audit & Governance Committee.

Creditworthiness policy

- 2.53. The primary principle governing the Council's investment criteria is the security of its investments, followed by the availability or liquidity of the funds with the yield or return on the investment is also a key consideration. The Council will ensure it:
- maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security (this is set out in the specified and non-specified investment sections below); and
 - has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed (these procedures also apply to the Council's prudential indicators covering the maximum principal sums invested).
- 2.54. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 2.55. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by three agencies with two meeting the Council's criteria and the other not, the institution will fall outside the lending criteria. Credit rating information is supplied by Arlingclose on all active counterparties that comply with the criteria below.
- 2.56. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notifications of likely changes), rating outlooks (notification of possible longer term changes) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 2.57. The criteria for investment counterparties and instruments is set out below (both specified and non-specified investments).

- 14
- **Bank/Building Society Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
The council will only use banks meet the following criteria
 - Short term: F1/P1/A1 (Fitch, Moodys, S&P)
 - Long term A-/A3/A-
 - UK domiciled
 - are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA
 - HSBC as the Council' main bank provider for transactional purposes with minimal overnight balances if the bank does not meet the credit rating criteria above.
 - Bank subsidiaries where the parent bank has provided an appropriate guarantee and meets the rating criteria.
 - **Bank/Building Society Secured (Covered Bonds):** These investments are secured on the bank's assets, which limit the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed £20m. A minimum rating of AAA (or equivalent) from two of the three rating agencies.
 - **Money Market Funds:** An open ended fund that invests in short term debt securities, offers same-day liquidity and very low volatility. The use of Money Market Funds is restricted to funds with AAA ratings (from two of the three rating agencies) up to a maximum of £175m (with a maximum of £25m per Money Market Fund)
 - **Government:** Loans, bonds and bills issued or guaranteed by UK government, local authorities and supranational banks. These investments are not subject to bail-in, and there is a minimal risk of insolvency. Deposits with a single local authority or public body are limited to £20m, with no such limit in place for a UK national government body, e.g DMO.
 - **Corporates:** Corporate bonds issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. A minimum rating of A- (or equivalent) from two of the three rating agencies with a maximum exposure of £20m.
 - **Enhanced Cash/Bond Funds:** Criteria for suitable funds is a fund credit quality (FCQ) rating of AAA and a fund volatility rating (FVR) of S1 (or equivalent) from one of the three main rating agencies (Fitch, Moody's or Standard & Poor's) with a maximum combined limit of £20m for enhanced cash/bond funds.

- **Pooled Property Funds:** Shares in diversified property investment vehicles. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. The funds have no defined maturity date, but are available for withdrawal after a notice period. The strategy has set a maximum combined limit of £20m for pooled property funds.

Country restrictions

2.58. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from all three rating agencies up to a maximum of £40m per country. This restriction does not apply to the UK, which has seen its AAA rating reduced. The following countries are rated AAA:

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

Time and monetary limits applying to investments

2.59. It is recommended that the specific terms applicable to investment types will be limited as follows:

- **Overnight:** AAA rated money market funds, Call accounts, Enhanced cash/corporate bonds pooled funds
- **100 day:** Unsecured Banks Building Societies A- and above
- **6 months:** Unsecured Banks Building Societies A and above
- **13 months:** Unsecured Banks Building Societies AA- and above
- **2 years:** Corporate Bonds
- **5 years:** Bank/Building Society (Secured) Covered Bonds, Debt Management Office, Supranational Institutions, Local Authority

2.60. Further internal restrictions may be applied based upon market conditions or recommendations from Arlingclose.

2.61. The proposed criteria for specified and non-specified investments are shown in table 2.4

Table 2.4: Effective Counterparty Limits

Type	Fitch		Moody's		S&P		Maximum Value	Maximum Term
	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term		
Bank/Building Society (Unsecured)	F1	A-	P-1	A3	A1	A-	£20m	100 days
Bank/Building Society (Unsecured)	F1	A	P-1	A	A1	A	£20m	6 months
Bank/Building Society (Unsecured)	F1+	AA-	P-1	Aa3	A1+	AA-	£20m	13 months
Corporate Bonds	A-		A3		A-		£20m	2 years
Bank/Building Society (Secured) Covered Bonds	AAA		Aaa		AAA		£20m	5 years
Money Market Funds	AAA		Aaa		AAA		£25m	n/a
Enhanced Cash / Bond Funds	AAA / v1		Aaa-bf		AAAf / s1		£20m	n/a
Debt Management Office							Unlimited	2 years
Supranational Institutions							£20m	2 years
Local Authority							£20m	2 years
Pooled Investment Property Funds							£20m	n/a

Use of additional information other than credit ratings

2.62. Additional requirements under the Prudential Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches or outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment returns expectations

2.63. The Bank Rate is forecast by Arlingclose to remain unchanged at 0.25% for some considerable time. Arlingclose forecasts the financial year ends (March) as follows:

2016/17	2017/18	2018/19	2019/20
0.25%	0.25%	0.25%	0.25%

2.64. There are downside risks to these forecasts (i.e., the start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if the Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

2.65. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next three years are as follows:

2016/17	0.40%
2017/18	0.40%
2018/19	0.40%
2019/20	0.65%

Specified Investments

2.66. The CLG Guidance defines specified investments as those:

- denominated in pound sterling;
- due to be repaid within 12 months of arrangement;
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government;
 - a UK local authority, parish council or community council; or
 - a body or investment scheme of high credit quality.

2.67. The Authority defines 'high credit quality' organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AAA. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of AAA.

Non Specified Investment Limits

2.68. Any investment not meeting the definition of a specified investment is classed as non-specified. For treasury purposes, the Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 2.5 below.

2.69. The Council is asked to approve the treasury indicator and limit.

Table 2.5: Non Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A- (with the exception of pooled property funds)	£0m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AAA	£0m
Total non-specified investments	£40m

Investment risk benchmarking

2.70. A development in the revised Code on Treasury Management and the CLG consultation paper, as part of the improvements to reporting, is the consideration and approval of security and liquidity benchmarks. Whereas yield benchmarks are currently widely used to assess investment performance, security and liquidity benchmarks are new reporting requirements. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual report.

Security

2.71. The Council's maximum security risk benchmark for the current portfolio, when compared with these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

Liquidity

2.72. The Council currently restricts deposits with each counterparty to term deposits only, the length of which is based upon individual assessment of each counterparty. In respect of its liquidity, the Council seeks to maintain the following:

- Bank overdraft: £100,000;
- No minimum target relating to liquid short term deposits;
- Weighted average life benchmark is expected to be less than three months.

Yield

2.73. The Council benchmarks the return on deposits against the 7-day LIBID (London Interbank Bid Rate), and reports on this as part of the treasury monitoring reports.

Policy on Use of Financial Derivatives

2.74. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

- 2.75. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) after taking expert advice, and where they can be clearly demonstrated to reduce the overall level of the financial risks to which the Authority is exposed. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 2.76. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Additional Portfolio of Investments

- 2.77. On 23 July 2013, Cabinet approved a portfolio of investments, covering investment in property and assets and in new models for service delivery. This supports the Council's stated intentions of enhancing financial resilience in the longer term. These arrangements will allow for investment in schemes that will support economic growth in Surrey provided that these schemes are consistent with the Investment Strategy outlined in the Cabinet report of 23 July 2013.
- 2.78. The strategic approach to investment is based upon the following:
- prioritising use of the Council's cash reserves and balances to support income generating investment through a Revolving Investment and Infrastructure Fund (the Investment Fund) to meet the initial revenue costs of funding initiatives that will deliver savings and enhance income in the longer term (some of which may be used to replenish the Investment Fund);
 - using the Investment Fund to support investments in order to generate additional income for the council that can be used to provide additional financial support for the delivery of functions and services;
 - investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council;
 - investing in schemes that have the potential to support economic growth in the county;
 - retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

Performance indicators

- 2.79. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy and effectiveness of the treasury management function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The performance indicators to be used for the treasury management function are:

- borrowing: actual rate of borrowing for the year less than the year's average rate relevant to the loan period taken; and
- investments: internal returns above the 7-day LIBID rate.

2.80. These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2017, and the treasury management outturn report for 2017/18.

End of year investment report

2.81. At the end of the financial year, the Council will report on its investment activity as part of its treasury management outturn report.

Training

2.82. Officers and members involved in the governance of the Council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the Council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through local authority networks. Arlingclose provides regular newsletters and regular update calls/meetings will be held with Arlingclose.

2.83. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

External fund managers

2.84. The Council does not currently employ an external fund manager.

Lead/contact officer:

Treasury Phil Triggs, Strategic Finance Manager, Pension Fund & Treasury
020 8541 9894

Capital Wai Lok, Senior Accountant
020 8541 7756

Appendices:

Appendix 1	Treasury Management Policy
Appendix 2	Prudential indicators – 2017/18 to 2019/20
Appendix 3	Global economic outlook and the UK economy
Appendix 4	Treasury management scheme of delegation
Appendix 5	Annual minimum revenue provision policy statement

Sources and background papers:

CIPFA Prudential Code for Capital Finance

CIPFA Treasury Management in the Public Services: Code of Practice

Investment guidelines under section 15(1) (a) of the Local Government Act 2003

This page is intentionally left blank

Treasury Management Policy

A.8.1. The County Council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

A.8.2. Surrey County Council defines its treasury management activities as: "The management of the organisation's cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Risk appetite

A.8.3. The Council's appetite for risk in terms of its treasury management activities is low/medium. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

Risk management

A.8.4. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into in order to manage these risks.

Value for money

A.8.5. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

A.8.6. The Council greatly values revenue budget stability and, therefore, will aim to borrow the majority of its long term funding needs at long term fixed rates of interest. However, short term rate loans may be utilised where the yield curve provides opportunity. The Council will also constantly evaluate debt restructuring opportunities within the portfolio.

A.8.7. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

Investment policy

A.8.8. The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The

14 generation of investment income to support the provision of local authority services is a further important objective.

- A.8.9. The Council will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Prudential indicators

The Council has adopted the Prudential Code.

Capital expenditure

A.9.1. Table 9.1 sets out actual and estimated capital expenditure and its funding for 2015/16 to 2019/20. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

Table 9.1: Actual and estimated capital expenditure 2015/16 - 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	← ----- Estimated ----- →		
	£m	£m	£m	£m	£m
Capital programme expenditure	174.7	143.3	195.7	131.8	80.4
Financed by:					
Government grants	94.5	89.8	120.7	85.1	67.3
Revenue, reserves and third party contributions	19.8	15.9	24.7	10.0	5.7
Net financing need for the year*	60.4	37.6	50.3	36.7	7.4

*Capital expenditure to be met by borrowing.

The Council's borrowing need (the capital financing requirement)

A.9.2. Table 9.2 sets out the Council's capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP).

A.9.3. The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage.

A.9.4. The CFR includes any other long term liabilities, e.g., PFI schemes and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.

A.9.5. In addition to the capital programme, the Council invests in opportunities identified as part of the long term capital strategy. These investments form part of the CFR and increase the Council's underlying need to borrowing, however, they do not create a pressure on the revenue interest paid or MRP budgets as they are funded from the investment returns of such investments.

Table 9.2: Capital financing requirement (CFR) 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	← ----- Estimated ----- →		
	£m	£m	£m	£m	£m
Opening CFR	781.6	903.8	1,084.0	1,143.7	1,154.7
MRP	-30.6	-18.0	-20.8	-23.1	-24.7
PFI* and Finance Leases	29.9	47.1	-3.0	-19.8	-18.7
Net Financing Need	60.4	37.6	50.3	36.7	7.4
Long term capital strategy spend	62.5	113.5	33.2	17.2	6.1
Closing CFR	903.8	1,084.0	1,143.7	1,154.7	1,124.8
Total CFR Movement	122.2	180.2	59.7	11.0	-29.9

*includes the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

A.9.6. Table 9.3 sets out the Council's gross debt compared to the CFR. Gross borrowing refers to an authority's total external borrowing. The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates for the following two financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes.

Table 9.3: Gross borrowing requirement 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	← ----- Estimated ----- →		
	£m	£m	£m	£m	£m
External Debt	429.3	429.3	429.3	429.3	429.3
CFR	903.8	1,084.0	1,143.7	1,154.7	1,124.8

The Council's operational boundary

A.9.7. Table 9.4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Director of Finance's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Table 9.4: Operational boundary 2015/16 to 2019/20

	2015/16 Actual £m	2016/17 Projected £m	2017/18 ← ----- Estimated ----- £m	2018/19 Estimated £m	2019/20 ----- £m
Borrowing	448.4	490.2	511.8	509.6	481.4
Other long term liabilities	160.5	186.7	182.5	162.7	144.1
Total	608.9	676.9	694.3	672.3	625.5
External debt	429.3	429.3	429.3	429.3	429.3

The Council's authorised limit

A.9.8. Table 9.5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements and ensures that the Council has the ability to borrow up to its CFR if the market changes to the extent that this is considered an appropriate action.

Table 9.5: Authorised limit for external debt 2015/16 to 2019/20

	2015/16 Actual £m	2016/17 Projected £m	2017/18 ← ----- Estimated ----- £m	2018/19 Estimated £m	2019/20 ----- £m
Borrowing	722.4	741.4	1,091.5	1,092.8	1,021.4
Other long term liabilities	160.5	186.7	182.5	162.7	144.1
Total	882.9	928.1	1,274.0	1,255.5	1,165.5
External debt	429.3	429.3	429.3	429.3	429.3

Ratio of financing costs to net revenue stream

A.9.9. Table 9.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme.

Table 9.6: Ratio of financing costs to net revenue stream

	2016/17 Projected	2017/18 ← ----- Estimated -----	2018/19 Estimated	2019/20 -----
Ratio of financing costs to net revenue stream	1.15%	1.32%	1.47%	1.57%

Incremental impact of capital investment decisions on Council Tax 2017/18 to 2019/20

A.9.10. Table 9.7 sets out the incremental impact of capital investment decisions on Council Tax. This indicator sets out the impact on council tax of the capital schemes introduced in the three-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for all future years.

Table 9.7: Estimated incremental impact of capital investment decisions on council tax 2017/18 to 2019/20

	2017/18	2018/19	2019/20
Band D Council Tax	£1.79	£8.04	£11.64

A.9.11. These prudential indicators show the full revenue costs of the proposed capital programme and do not reflect the impact of the current internal borrowing strategy which has the effect of reducing the actual finance costs as the external borrowing entered into is reduced.¹

A.9.12. The revenue implications of potential, yet to be identified, investment opportunities that meet the Council's long term capital strategy criteria, will be funded from the investment returns of such investments. If there is a delay in the realisation of sufficient returns then costs will be funded from the Council's Revolving Infrastructure & Investment Fund.

¹ The revenue budgets for interest paid, received and the minimum revenue provision do reflect the internal borrowing and reduced cash balances strategies.

Global economic outlook and the UK economy

- A.10.1. The medium term outlook for the UK economy is dominated by the negotiations to leave the European Union. The long-term position of the UK economy will be largely dependent on the agreements the Government is able to secure with the EU and other countries.
- A.10.2. The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- A.10.3. However, following significant global fiscal and monetary stimulus, the short-term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- A.10.4. Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- A.10.5. Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- A.10.6. The currency-led rise in CPI inflation (currently 1.6% December 2016) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- A.10.7. The depreciation in Sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- A.10.8. Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- A.10.9. Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.
- A.10.10. Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- A.10.11. The likely path for the Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

A.10.12. Gilt yields have risen since the US presidential election, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

Treasury management scheme of delegation

Full Council

A.11.1. Approval of annual strategy.

Audit & Governance Committee

A.11.2. Receiving and reviewing monitoring report and outturn report.

Director of Finance

A.11.3. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

- Raising borrowing or funding finance from the most appropriate of these sources:
 - Government's Public Works Loans Board
 - Municipal Bond Agency
 - lenders' option borrowers' option (LOBO) loans
 - local bond issues
 - European Investment Bank
 - overdraft
 - banks and building societies
 - local authorities
 - lease finance providers
 - internal borrowing.
- Debt management:
 - managing the cost of debt;
 - delegate authority to treasury management staff to undertake borrowing and debt rescheduling activities.
- CIPFA Prudential Code for Capital Finance in Local Authorities:
 - ensuring that this requirement is not breached, taking into account current commitments, existing plans, and the proposals in the budget report.
- Investing:
 - setting more restrictive investment criteria in response to changing circumstances;
 - arranging investments using these instruments:
 - fixed term deposits with banks and building societies
 - money market funds
 - local authorities
 - Government's Debt Management Agency deposits
 - pooled funds: gilts and corporate funds;
 - corporate bonds
 - covered bonds
 - pooled property funds

- compiling and updating the lending list, utilising the criteria for counterparties, in consultation with the treasury management consultants;
- managing surplus funds and revenue from investments;
- appointment and performance management of external cash managers (if considered necessary);
- delegate authority to invest to designated treasury management staff.
- Loan rescheduling:
 - any debt rescheduling which will be done in consultation with the treasury management consultants.
- Policy documentation:
 - formulation and review of the treasury management strategy statement;
 - formulation and review of the treasury management practices (TMPs).
- Strategy implementation:
 - implementing the strategy, ensuring no breaches of regulations;
 - reporting to Cabinet any material divergence from the strategy making requests to Council to approve amendments to the strategy as required;
 - ensuring that treasury management activities are carried out in accordance with CIPFA Codes of Practice.

Annual Minimum Revenue Provision (MRP) policy statement 2017-18

- A.12.1. Prior to 2008/09, the Council, in accordance with legislation, made a contribution from revenue to cover 4% of the unfinanced borrowing that has been undertaken to support the capital programme.
- A.12.2. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008, 2008/09 was the first year of operation. Following a review, changes have been made to the method adopted to calculate the MRP from 2016/17 onwards. The Council has assessed the Minimum Revenue Provision and are satisfied that the guidelines for their annual amount of MRP set out within this policy statement will result in their making the prudent provision that is required by the guidance.
- A.12.3. Where capital expenditure was incurred before 1 April 2008, MRP will be charged by writing down the remaining Capital Financing Requirement relating to this period over the next 50 years. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life annuity method. MRP will be based on the estimated life of the assets purchased from unsupported borrowing.
- A.12.4. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.
- A.12.5. MRP will be made at 1% for investment properties held for income generation purposes. For investment properties held solely for asset appreciation purposes with an intention to sell, no MRP will be charged.
- A.12.6. In the case of long-term debtors arising from loans made to third-parties or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), there will be no minimum revenue provision made. The council will make a MRP on investments in service delivery companies based on a 100 year life.
- A.12.7. The Council reserves the right to determine alternative MRP approaches where material in particular cases, in the interests of making prudent provision. Officers will take account of local circumstances, including specific project timetables and revenue-earning profiles.
- A.12.8. Each year a new MRP statement will be presented.

This page is intentionally left blank