

Audit & Governance Committee



Date & time
Wednesday, 12
December 2018
at 10.30 am

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

Contact
Joss Butler
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Chief Executive
Joanna Killian



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[@SCCdemocracy](https://twitter.com/SCCdemocracy)

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Joss Butler on 020 8541 9702.

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Dr Peter Szanto, Mr Will Forster and Mr Stephen Spence

Ex Officio:

Mr David Hodge CBE (Leader of the Council), Mr John Furey (Deputy Leader), Mr Tony Samuels and Mrs Helyn Clack (Chairman of the Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 27 SEPTEMBER 2018

(Pages 1
- 6)

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 (*6 December 2018*).
2. The deadline for public questions is seven days before the meeting (*5 December 2018*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages 7
- 10)

To review the Committee's recommendations tracker.

6 TREASURY MANAGEMENT MID YEAR REPORT

(Pages
11 - 22)

This report summarises the council's treasury management activity during the first half of 2018/19, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential and Performance Indicators for the first half of 2018/19, in accordance with the requirements of the CIPFA Prudential Code.

7 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (01/07/18 - 30/09/18) (Pages 23 - 44)

The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2018 and 30 September 2018.

The original annual plan for Internal Audit is contained within the Internal Audit Strategy and Annual Plan 2018-19, which was approved by Audit and Governance Committee on 12 April 2018.

Along with a regular update on Internal Audit performance, this progress report also includes detail of changes to the annual plan with effect from this quarter to allow for a reduction in the resources available to Internal Audit.

8 2017/18 AUDIT FINDINGS REPORT AND ANNUAL STATEMENT OF ACCOUNTS FOR S. E. BUSINESS SERVICES LTD, SURREY CHOICES LTD & HALSEY GARTON PROPERTY LTD (Pages 45 - 184)

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2017/18 financial statements of S.E.Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd.

9 EXTERNAL AUDIT UPDATE REPORT (Pages 185 - 202)

This paper provides the Committee with a report on Grant Thornton's progress in delivering their responsibilities as the council's external auditors. The paper also includes a summary of emerging national issues and developments.

10 EXTERNAL AUDIT UPDATE REPORT - SUPPLEMENTARY VALUE FOR MONEY FINDINGS REPORT 2017/18 (Pages 203 - 224)

This paper provides the Committee with a supplementary report issued by the council's external auditors, Grant Thornton, on the council's Value for Money arrangements.

11 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 7 February 2018.

Joanna Killian
Chief Executive
Published: 4 December 2018

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.

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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 10.30 am on 27 September 2018 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:

*= Present

Mr David Harmer (Chairman)*
Mr Keith Witham (Vice-Chairman)*
Mr Edward Hawkins*
Dr Peter Szanto*
Mr Will Forster*
Mr Stephen Spence*

46/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

47/18 MINUTES OF THE PREVIOUS MEETING: 26 JULY 2018 [Item 2]

Members highlighted a typing error under minute 41/18, point 9.

Subject to a minor amendment, the Minutes were approved as an accurate record of the previous meeting.

48/18 DECLARATIONS OF INTEREST [Item 3]

Edward Hawkins declared a non-pecuniary interest in item 9 as he was the Surrey County Council (SCC) appointed Director of Halsey Garton Property Investment Ltd.

49/18 QUESTIONS AND PETITIONS [Item 4]

There were none.

50/18 RECOMMENDATIONS TRACKER [Item 5]

Witnesses:

David John, Audit Manager

Key points raised during the discussion:

1. Action A1/17 – The Chairman confirmed that he had discussed the matter with the Chairman of the Corporate Overview Select Committee and raised the concerns of the Committee.
2. Action A8/18 – The Audit Manager informed the Committee that officers were reassessing the risk register process and that they had been made aware of the Committees concerns.
3. Action 16/18 – the Audit Manager confirmed that he had followed up on the police investigation but had not yet received a full response.

Action/Further information to note:

None.

RESOLVED:

That the committee noted the report.

51/18 ANNUAL COMPLAINTS PERFORMANCE REPORT [Item 6]**Witnesses:**

Sarah Bogunovic, Customer Relations and Service Improvement Manager

Key points raised during the discussion:

1. Officers introduced the report and provided Members with a brief summary. It was noted that there were three different complaints procedures in the Council; one for Children, Families and Learning, one for Adult Social Care and one for all other Council services. Members further noted that the volume of complaints did not in itself indicate the quality of the Council's complaints handling performance, as the Council wanted to be an open, learning organisation that encouraged feedback. Instead, escalation rates and uphold rates were considered to be a better measure of performance as they indicated where complaints had been unable to be resolved and fault had been found. A new early intervention approach had been introduced to address concerns that could be dealt with to the customer's satisfaction rather than go through the complaints procedure unnecessarily. Analysis had shown that there was a 15% decrease in complaints from the previous year and only 9% of early intervention cases had escalated to the complaints procedure. This suggested that the early intervention approach had been successful in preventing the unnecessary escalation of complaints.
2. Members noted that the Council had received exactly double the number of compliments than complaints.
3. Members praised the future implementation of a new customer feedback system as it would allow Members to track how residents felt about council services and give them an overview of compliments and complaints relevant to their electoral divisions. Members noted that the intention was for customer feedback information to be accessed through a real-time dashboard.
4. Officers confirmed that financial redress payments made through the complaints procedure were separate from the insurance and claims process and paid to customers where the actions (or inaction) of the Council had resulted in a verified financial loss. It was further noted that any payment over £1000 was required to be signed off by the head of service and relevant Cabinet Member.
5. Members raised concern that the number of compliments noted in the report may not be a true reflection due to officers not recording compliments received. Officers understood this concern and agreed that some officers might not be willing to record compliments as they felt they were just doing their job. They explained that a standard definition had been put in place to allow officers to understand exactly what was considered to be a compliment. To further streamline the

process, the new customer feedback system would give staff a single point of access to easily record compliments.

6. Members highlighted the benefits of providing a ratio of customer contacts compared to the number of complaints, as it was felt this would help to provide context to the number of complaints received. Officers agreed to consider new ways of visualising the data in future reports to provide appropriate context.
7. A short discussion was had relating to the top three complaint areas for the Council where Members suggested possible reasons for resident feedback.
8. Concern was raised over the benchmarking of Ombudsman complaints compared to other Local Authorities, as it was felt Surrey County Council should be more in line with Hertfordshire County Council.
9. Members discussed the training available for staff to ensure they were skilled enough to deal with a variety of situations; in particular the more challenging interactions with customers. It was noted that staff receive 'soft skills training' to improve their skills and confidence when speaking to residents.

Resolved:

The Audit & Governance Committee noted the Council's complaint handling performance in 2017/18 and how feedback from customers had been used to improve services.

52/18 INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 (01/04/18 - 30/06/18) [Item 7]

Witnesses:

David John, Audit Manager

Key points raised during the discussion:

1. Officers introduced the report and provided Members with a brief summary. Members noted Recommendation B which asked Members to agree the revised Audit Charter following an external assessment of Orbis Internal Audit by the South West Audit Partnership. Following a short discussion, The Committee decided to consider Recommendation B separately where it was agreed.
2. Officers felt positive about the action tracking of the internal audits as each manager was making the changes previously agreed. Due to recent vacancies in the Audit team, it was highlighted that the internal audit plan would need to be reconsidered to priorities which audits the team had the resource to conduct.
3. Members discussed current issues relating to employees not following the correct process when recording transport expense costs. When discussing a solution, Members were reassured that work was being conducted with senior officers to improve the process for reimbursement to make it in line with the current work practices. It was highlighted that it was a Her Majesty's Revenue and Customs (HMRC) policy to evidence fuel purchasing with a full VAT receipt.
4. Members sought clarification on when the review of surplus property would be completed. Following a discussion, it was noted that the new

director responsible for Property Services would be reconsidering the property structure and releasing information soon. Members stated that they would follow this up at the next meeting of the Committee.

5. Members expressed that they were pleased with the outcome of the review of Purchasing cards.
6. It was noted that an audit report on Initial Health Assessments would be circulated the following week.
7. A discussion was had regarding the Council's and School's compliance to General Data Protection Regulation (GDPR) requirements. Officers stated that they were satisfied actions were being undertaken to comply but they expected more work was needed to be done.

Resolved:

The Audit and Governance Committee:

- a. noted the report
- b. agreed the revision within the Audit Charter at Appendix C of the report.

53/18 EXTERNAL AUDIT PERFORMANCE REPORT 2017/18 AND KEY PERFORMANCE INDICATORS 2018/19 [Item 8]

Witnesses:

Nicola O'Connor, Finance Manager
Ciaran McLaughlin, Grant Thornton
Marcus Ward, Grant Thornton

Key points raised during the discussion:

1. Officers introduced the report and provided Members with a brief Summary. It was noted that the report provided Members with details of Grant Thornton's performance during the last 12 months against key performance indicators (KPIs) previously agreed by the Committee.
2. Members confirmed that they found the report helpful and would like to continue receiving it annually.
3. Some Members felt that more challenge was needed as year on year Grant Thornton had received 100% on each performance indicator. Officers noted this and highlighted comments in Annex 1 which displayed that improvements could still be made.

Resolved:

The Audit and Governance Committee considered the contents of the report in Annex 1 and approved the proposed KPIs for the 2018/19 audit in Annex 2.

54/18 ANNUAL AUDIT LETTER 2017/18 [Item 9]

Witnesses:

Nicola O'Connor, Finance Manager
Ciaran McLaughlin, Grant Thornton
Marcus Ward, Grant Thornton

Key points raised during the discussion:

1. Officers introduced the item where it was noted that the report summarised the key messages and findings that arose from work carried out for the Council year ending 31 March 2018.
2. Members were informed that the Value For Money (VFM) conclusion would be published within the next month as Grant Thornton were continuing to process the findings. Representatives from Grant Thornton highlighted that it was becoming more common to publish late VFM conclusions as they have become more challenging to complete.
3. Members of the Committee sought clarity on the Council's position relating to auto-enrolment for County Councillors into the pensions scheme. It was asked whether Councillors should be considered as 'job holders' and therefore be entitled to the scheme. Representatives from Grant Thornton stated that this was a legal matter and suggested legal advice was sought.

Resolved:

The Audit and Governance Committee noted the contents of the Annual Audit Letter,

55/18 DATE OF NEXT MEETING [Item 10]

The date of the meeting was noted as 13 December 2018.

Meeting ended at: 12.05 pm

Chairman

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Audit & Governance Committee
12 December 2018

RECOMMENDATIONS TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker.

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.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings in Annex A.

REPORT CONTACT: Joss Butler, Democratic Services Assistant
020 8541 9702 joss.butler@surreycc.gov.uk

Sources/background papers: None

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Audit & Governance Committee Recommendations Tracking

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A1/18	22/01/2018	Business Continuity	To upload the updated LGA Guidance titled 'A Councillor's guide to Civil emergencies' to the network portal and let all Members know when it's available.	Democratic Services Assistant	Awaiting publication by Local Government Association.
A2/18	22/01/2018	Business Continuity	To discuss timings for future reports once training for Members has taken place on Business Continuity.	Chairman	April 2018 – Member Development session titled 'Introduction to Emergency Planning' took place on 30 April 2018. The session provided Members with an overview of the response structures in place for emergency situations, as well as some of the key risks facing both Surrey County Council and local authorities more widely. July 2018 – The Chairman highlighted that he intended to request a report on business continuity and emergency management towards the end of the Council's transformation.
A6/18	12/04/2018	Bulletin	To invite the relevant Cabinet Member(s) to a future meeting in order to share concerns and answer questions on Babcock 4S.	Democratic Services Assistant	Cabinet Member for All-Age Learning to attend Committee meeting on 12 December 2018.
A16/18	26/07/18	Internal Audit & Counter Fraud Annual Report And Opinion 2017-18	Officers agreed to follow up on the Police investigation regarding the misuse of pre-paid credit cards.	Audit Manager	27/09/2018 - the Audit Manager confirmed that he had followed up on the police investigation but had not yet received a full response.

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A1/17	20/02/17	Audit for Surrey Choices	Committee to invite Penelope Fell, MD of Surrey Choices/Shareholder Board to next meeting of A&G	Chairman	27/09/2018 - The Chairman confirmed that he had discussed the matter with the Chairman of the Corporate Overview Select Committee and raised the concerns of the Committee.
A8/18	24/05/18	Annual Risk Management Report	The Audit Manager to highlight the Committee's concerns regarding school travel plans to the relevant service to find out if the risk had been considered and what mitigations are in place.	Audit Manager	27/09/2018 - The Audit Manager informed the Committee that officers were reassessing the risk register process and that they had been made aware of the Committees concerns.
A10/18	26/07/18	Statement Of Accounts 2017/18	Members request that the recent CIPFA review be circulated to the Committee once available	Chief Internal Auditor	Circulated to Members.



**AUDIT & GOVERNANCE COMMITTEE
12 DECEMBER 2018**

TREASURY MANAGEMENT MID YEAR REPORT

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during the first half of 2018/19, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential and Performance Indicators for the first half of 2018/19, in accordance with the requirements of the CIPFA Prudential Code.

RECOMMENDATIONS:

The Audit & Governance Committee is asked to note the content of the Treasury Management Half Year Report for 2018/19.

BACKGROUND:

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a Treasury Management semi-annual and annual reports.
2. The Authority's Treasury Management Strategy Statement for 2018/19 was approved at the County Council meeting on 6 February 2018. The investment and borrowing of cash exposes the Council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

EXTERNAL CONTEXT:

3. Having raised the bank rate in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the next few years. The MPC has lent toward tighter monetary policy, but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider that ultra-low interest rates result in other economic problems, and that a higher Bank of England Bank Rate will allow for further cuts should Brexit lead to an economic slowdown.
4. Annexe 1 contains further commentary on the economic backdrop for 2018/19.

REGULATORY UPDATES:

5. CIPFA Prudential and Treasury Management Codes:

Following consultation, CIPFA released the 2018 Prudential Code and Guidance for practitioners during the summer of 2018. Under the prudential system, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to CIPFA's Code, which has been given legislative backing. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities – whether supported by government or entirely self-financed. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework

MID YEAR REPORT:

6. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. Table 1 below summarises the Council's Balance Sheet position as at 31 March 2018, and shows a net borrowing position of £570m.
7. The Authority's current strategy is to maintain borrowing below the Capital Financing Requirement, sometimes known as internal borrowing. Internal borrowing allows the Council to utilise its internal cash balances on a temporary basis (i.e. working capital and usable reserves) which are not required in the short to medium term. This approach reduces market and credit risk for the investment portfolio and reduces borrowing costs. The Balance Sheet position as of 31 March is summarised in Table 1 below:

Table 1: Balance Sheet Summary

	31.3.18 Actual £m
General Fund CFR	1,151.9
Less: PFI Liabilities	181.0
Gross Borrowing Requirement	970.9
Less: usable reserves and working capital	400.9
Net borrowing requirement:	570.0

8. Table 2 illustrates the movement from 31 March to 30 September 2018. The net borrowing requirement reduced by £9m, from £570m to £561m. External borrowing reduced by £16m from £613m to £597m, mainly due to a reduction in short term borrowing.

Table 2: Borrowing Position

	31.3.18 Balance £m	Movement £m	30.9.18 Balance £m	30.9.18 Weighted average rate %	30.9.18 Weighted average maturity years
Public Works Loan Board	387		387	4.0%	35 years
Long term commercial loan	10		10	5.0%	36 years
Local authorities (short-term)	193	-23	170	0.7%	< 1 year
Surrey Police & Crime Commissioner	23	7	30	0.6%	0 days
Total borrowing*	613	-16	597		
Total Investments	-43	7	-36		0 days
Net Borrowing	570	-9	561		

9. The Authority's main objective when borrowing has been to strike a balance between securing low interest rates and achieving cost certainty over the period for which funds are required. This position provides short term savings with the flexibility to secure longer dated loans as and when the level of funds available for internal borrowing reduces, or financial forecasts indicate that external borrowing rates may increase.
10. In furtherance of these objectives, no new long term borrowing was undertaken during the first half of 2018/19, internal borrowing was maximised and short term borrowing was utilised to manage cash flow. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
11. The "cost of carry" analysis performed by the Authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

Investment Activity

12. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2018/19 the Authority's average daily level of investments was £39m compared to £78m for the first six months of 17/18.
13. The Council can place cash on deposit on the money market through brokers, directly with counterparties, through the use of call accounts, money market funds or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits have been agreed during 2018/19. All investments have been made through overnight money market funds.
14. The weighted average return on all investments the council received in the quarter to 30 September 2018 is 0.58%. This compares to the 0.51% average 7-day London Interbank Bid Rate (LIBID) for the same period.

Table 3: Investment Benchmarking

	Average 7-day LIBID	Weighted return on investments
2018/19 quarter 2	0.51%	0.58%
2018/19 quarter 1	0.36%	0.44%
2017/18 total	0.21%	0.22%
2016/17 total	0.20%	0.38%

15. Both the CIPFA Code and the government's Investment Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest 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. In furtherance of these objectives, the Council's strategy of maximising internal borrowing has reduced the cash available for investment, and reduced the scope for making longer-term deposits.

Other Investment Activity

16. Although not currently classed as treasury management activities and therefore not covered by the CIPFA Code, the Authority also holds £77m of investments in directly owned investment property (excluding assets under construction) and £197m in loans to and shareholdings in its subsidiaries.
17. It is projected that these non-treasury investments will generate £4.9m net investment income for the Authority in 2018/19 after taking account of direct costs and MRP. As at 30 September, the net return is £1.2m.

Performance Report

18. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget.

Table 4: Performance

	2018/19 Budget £m	2018/19 Full year projection £m	Projected Over/ Under(-) £m
Interest Payable	7.8	7.8	0
Interest Receivable	0.3	0.3	0

Compliance Report

19. The Director of Finance is pleased to report that all treasury management activities undertaken during the first half of 2018/19 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below. All investments in the first half of the year were deposited in Money Market Funds.

Table 5: Investment Limits

Type	Rating	Limit	Maximum During the Year	Value at 30/9/17	Complied
Aberdeen – MMF	AAA	£25m	£25m	£14.1m	✓
Insight – MMF	AAA	£25m	£25m	£22.3m	✓
JP Morgan – MMF	AAA	£25m	£25m	0	✓
Morgan Stanley – MMF	AAA	£25m	£25m	0	✓
Goldman Sachs – MMF	AAA	£25m	£25m	0	✓
Money Market Funds	AAA			£36.4m	✓

20. Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below. The Authorised Limit is a statutory limit set by Council which cannot be breached. The Operational Limit is the day to day limit which may be breached on occasions due to variations in cash flow.

Table 6: Debt Limits

	External Debt 30.9.18 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied
Borrowing	597	1,059	1,643	✓

21. The highest level of external debt during the first six months of 2018/19 stood at £626m during April, significantly below the Authorised Limit and the Operational Boundary.

Treasury Management Indicators

22. The Authority measures and manages its exposures to treasury management risks using the following indicators.

23. **Security:** The Council analyses the investment portfolio at year end against historic default rates to estimate the maximum exposure to default, as shown in the table below:

	Amount	Historical experience of default	Adjustment for market conditions	Estimated maximum exposure to default
	£000s	%	%	£000s
	30/09/2018	30/09/2018	30/09/2018	30/09/2018
Deposits with banks and financial institutions	(a)	(b)	(c)	(a x c)
Local Authorities	0	0.00%	0.00%	0
AAA rated counterparties	36,400	0.00%	0.00%	0
AA rated counterparties	0	0.03%	0.03%	0
A rated counterparties	0	0.08%	0.08%	0
Other counterparties				
Total	<u>36,400</u>			<u>0</u>

24. **Liquidity:** The Council currently restricts termed deposits to less than one year. In respect of liquidity, the Council also seeks to maintain the following:

- Bank overdraft of £100,000
- No minimum target relating to liquid short term deposits
- Weighted average life benchmark is expected to be less than 3 months.

As at 30 September 2018, all investments were held in Money Market Funds with instant access.

25. **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk for external borrowing. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.9.18 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0%	25%	✓

26. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.9.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	33.4%	50%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	1.6%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	65.0%	100%	25%	✓

27. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

28. **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	30.9.17 Actual	2018/19 Limit
Principal invested for more than 365 days	0%	35% of value of investments held
Complied	✓	✓

IMPLICATIONS:

Financial

29. The direct financial implications of this report are highlighted in table 6 and form part of the monthly budget monitoring report to Cabinet.

Equalities

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

Risk management

31. See paragraphs 22-28

WHAT HAPPENS NEXT:

- a. The Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- b. In line with the requirements of CIPFA's Code of Practice for Treasury Management, a full-year report for 2018/19 will be brought to this Committee after financial year end.
- c. The Treasury Team will prepare the annual Treasury Management Strategy, which will be presented to this Committee on 7 February 2019 for approval.

REPORT AUTHORS: Nikki O'Connor, Finance Manager (Assets & Accounting)

CONTACT DETAILS: nicola.oconnor@surreycc.gov.uk, 020 8541 9263

Sources/background papers:

Capital Budget and Treasury Management Strategy 2018/19

Prudential Indicators 2018/19 to 2019/20

CIPFA Code of Practice for Treasury Management in the Public Services 2017

The Prudential Code 2017

Annex 1:**EXTERNAL CONTEXT:**

Economic background: Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

Credit background: Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

Outlook:

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.



AUDIT & GOVERNANCE COMMITTEE
12 DECEMBER 2018

INTERNAL AUDIT PROGRESS REPORT – QUARTER 2
(01/07/18 – 30/09/18)

SUMMARY AND PURPOSE:

The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2018 and 30 September 2018.

The original annual plan for Internal Audit is contained within the Internal Audit Strategy and Annual Plan 2018-19, which was approved by Audit and Governance Committee on 12 April 2018.

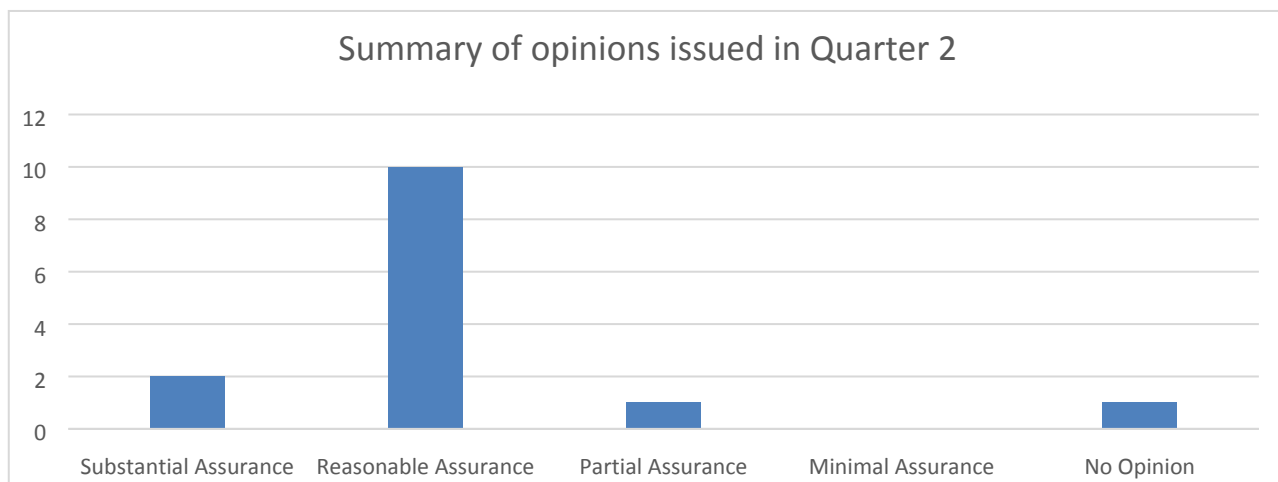
Along with a regular update on Internal Audit performance, this progress report also includes detail of changes to the annual plan with effect from this quarter to allow for a reduction in the resources available to Internal Audit.

RECOMMENDATIONS:

The Audit and Governance Committee is asked to note the report and consider any further action required in the response to issues raised.

BACKGROUND:

1. Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A.
2. Reviews completed in this quarter included a mixture of planned and unplanned audits, grant certification work, and irregularity work. Overall, of the 14 formal audits finalised during the quarter (excluding grant and irregularities), 2 received 'substantial assurance', 10 received 'reasonable assurance', 1 was of partial assurance and 1 had no opinion, being a position statement. There were no opinions of 'minimal assurance' issued in this period.



3. Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. One follow-up review of the Highways Contract (Lot 5 – Drainage) was completed in the quarter: this resulted in an opinion being revised from partial assurance to reasonable assurance following progress against agreed actions being implemented as expected.
4. Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these, and also bring them to the attention of the Corporate Leadership Team. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix A.
5. Appendix A also provides details of counter fraud investigations completed, information on the tracking of high priority actions and progress against our performance targets.

IMPLICATIONS:

6. Financial;
Equalities;
Risk management; and/or
Value for money
7. 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:

8. See Recommendations above.

REPORT AUTHOR:

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Sources/background papers: Internal Audit Strategy and Annual Audit Plan 2018/19.

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Internal Audit and Counter Fraud

Quarter 2 - Progress Report 2018/19

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Occupational Health

- 1.1 Occupational Health (OH) is the branch of medicine that deals with the health of people in their workplace or in relation to their job. In addition to SCC's internal employee offer as of 1st April 2016, the council has appointed Team Prevent; an external provider of Occupational Health Services in relation to supporting employee wellbeing.
- 1.2. The core services offered by Team Prevent include, but are not limited to:
- Pre-employment health assessments;
 - Occupational Health referrals;
 - Ill health retirement assessment; and
 - Wellbeing Zone – online support.
- 1.2 The overall objective of the audit was to form a view on the effectiveness of the Occupational Health Services the council provides to its employees, including an assessment of the following key control objectives:
- Occupational Health Programmes and resources are devised to improve employee attendance and well-being;
 - Service Managers are aware of the Occupational Health reporting and referral process and are using the service effectively;
 - The recording and monitoring of all Occupational Health referrals; assessments and outcomes is robust with appropriate data protection and information governance arrangements are in place;
 - Record of attendance and outcomes from Occupational Health and well-being referrals is made available to appropriate stakeholders, and that action plans and change is a positive outcome of all work undertaken; and
 - Reviews of employee health and wellbeing data, identify trends and take action as appropriate.
- 1.4 We were able to provide an overall opinion of **Reasonable Assurance** in respect of the internal control environment. We identified that the overall feedback from the cohort of managers selected for testing indicates that the initial telephone triage and appointment notifications are received in a timely manner and the outcomes are helpful to them.
- 1.5 We identified areas where the current service level agreement either had no performance measurement (for example, whilst there are set time frames for appointments to be made within, there is no measurement of when the appointments actually take place) or where guidance on S:Net varied from the contract (for example, the number of working days after a

referral when the appointment would take place). We also identified from the Team Prevent dashboard metrics that there has been a marked increase in the time taken from an individual's first day of absence to a subsequent the OH referral.

- 1.6 In response to these issues, a range of improvement actions have been agreed with management as part of a formal action plan.

Procure to Pay (2017/18)

- 1.7 The council procures goods and services from a variety of suppliers for which payments are made on a daily basis. Procure to Pay (P2P) sits within Business Operations Service and is carried out by three teams – Data Management Team (DMT), Buying Solutions Team (BST) and the Payments Team (PT). In the eleven months preceding this audit, the council procured £1.34bn of goods and services through this route.
- 1.8 A number of staffing and operational changes had affected the P2P service following corporate restructuring in 2017/18.
- 1.9 The objectives of this audit were to provide assurance that key controls were in place to:
- Manage and implement changes to process effectively;
 - Update the policies and procedures following these changes;
 - Clarify staff roles and responsibilities;
 - Ensure compliance by staff against expected processes;
 - Ensure management information and reports were regular and comprehensive; and
 - Ensure previous audit recommendations have been implemented as expected.
- 1.10 We were able to provide an overall opinion of **Reasonable Assurance** in respect of the internal control environment. The expected key controls were in place, and detailed procedure notes were mostly in place, though some areas still required updating. The majority of routine operational activity was being undertaken as expected. We were able to provide assurance that expected controls around VAT checking, BACS payments and identification of duplicate payments were in place.
- 1.11 We identified some areas for improvement: parked invoices of around £30k in value were found, the majority of which were in Children's, Families and Learning Directorate (CFL). These occur when purchase orders are not raised before services are commissioned, where goods delivered are not receipted, or where a discrepancy exists between the initial purchase order and the invoice received. Often, parked invoices are a consequence of non-compliant behaviour by officers in the services placing orders.

- 1.12 Additionally, the level of Goods Received Not Invoiced (GRNI) within CFL stood at 60%. This requires the Payments Team to provide quarterly 'housekeeping' reports to CFL and meet with finance staff to resolve, which is time-consuming.
- 1.13 In response to these findings, a range of remedial actions have been agreed with management as part of a formal action plan.

Payroll (2017/18)

- 1.14 The audit of the Payroll process is primarily to ensure that the correct payment of salary is made to the correct employee at the right time. The payroll service provides services to council employees, to schools, and to other external agencies.
- 1.15 This audit was a carry-forward from the 2017/18 audit plan, and was able to provide an opinion of **Reasonable Assurance** over the key controls in place, including:
- The payroll function complies with legislation and financial regulations;
 - There are written and up to date procedures which are easily accessible by staff;
 - There is segregation of duties between payroll preparation and payment;
 - Access to payroll data is restricted to appropriate staff;
 - All changes to the payroll are requested on approved documentation and appropriately authorised;
 - There are sufficient validation and authorisation checks prior to the running of the payroll;
 - There are adequate measures to ensure payroll is run on time and is correct prior to release; and
 - Data is correctly posted to SAP and is reconciled on a regular basis.
- 1.16 One key finding of the audit was that a number of employees in the sample tested had breached the current Working Time Regulations (WTR), which prescribes an average of 48 hours per week (over a 17 week period) for the hours an employee can be required to work, though individuals may choose to work longer by opting out. Whilst a policy around WTR was due to have been implemented by the council in 2016/17 it was not in place at the time of audit, and a number of staff were identified to have been working in excess of the prescribed hours without a formal opt-out in place.
- 1.17 In response to this finding, and a lower priority issue around pension opt-out, remedial actions have been agreed with management as part of a formal action plan.

Apprenticeship Levy

- 1.18 Central government introduced an apprenticeship levy in April 2017 requiring all employers with an annual payroll of more than £3million to pay into the levy at a rate of 0.5% of total payroll costs. The council deposited £1.3m into their Digital Apprenticeship Service account to spend on apprenticeship training, including a further top up of 10% from central government. Each monthly deposit expires after 24 months if not utilised.
- 1.19 A levy is also applied to maintained Surrey schools. Surrey County Council manages both schemes separately with Children's Schools and Family Directorate taking on the responsibility to promote and monitor school employees.
- 1.20 In addition to the levy charges, the government has also set a statutory target for public sector organisations for 2.3% of their workforce to comprise of employees undertaking an apprenticeship.
- 1.21 The purpose of this audit was to provide assurance that key controls were in place to meet key objectives around the calculation of apprenticeship levy; having effective monitoring and reporting arrangements in place to generate accurate management information and achieve value for money; and that the organisation has an apprenticeship strategy in place with clear strategic objectives to meet our public sector targets.
- 1.22 Based on our review, we were able to determine that the expected controls were in place and so gave an opinion of **Reasonable Assurance** for this system, making a total of just 3 low priority recommendations for improvement.

Highways Contract (Lot 5) follow-up

- 1.23 Surrey County Council's Highways service manages the Lot 5 (Flood Prevention) contract, which includes responsibility for cyclical and reactive gully cleansing, soakaway cleansing, catchpit cleansing and maintenance of an electronic asset register for drainage assets. Lot 5 was awarded to Kier who subsequently appointed a subcontractor to deliver Lot 5 on its behalf.
- 1.24 The original report of January 2017 recorded an audit opinion of Significant Improvement Needed (equivalent to Minimal Assurance) and made 9 recommendations in total, 6 of them High Priority.
- 1.25 This follow-up audit forms part of the agreed Internal Audit Plan for 2018/2019.
- 1.26 Based on this follow up review we have been able to provide **Reasonable Assurance** over the degree to which the agreed actions from the last audit have been implemented. This represents

an improvement in the controls because the service has made good progress against seven of the nine actions agreed as part of the previous audit and these actions have been fully implemented.

- 1.27 Overall, on the basis that the governance manual will be updated imminently, and the strategy for new contractors will consider lessons learnt from the current contract, we are now satisfied with the arrangements in place to manage the contract.

Better Care Fund / Better Care Fund Schemes

- 1.28 The Better Care Fund (BCF) is a national programme designed to incentivise the NHS and local government to work more closely around people, placing their wellbeing as the focus of health and care services.
- 1.29 We completed two audits around BCF activity during the year: the first looking at compliance with reporting requirements to the NHS Executive and DCLG and robustness around planning, submission and approval processes; the second examining ten CCG-managed schemes to ensure governance arrangements were effective in delivering the expected outcomes against agreed BCF objectives.
- 1.30 With regard to the first of these audits, we were able to give an opinion of **Substantial Assurance**. Planning was deemed effective and well-coordinated, there were effective reporting arrangements in place and it is evident that appropriate scrutiny of BCF activity is undertaken at local group and county-wide board level. We made a low level recommendation about the frequency of meetings being determined more formally.
- 1.31 With regard to the second audit, we gave an opinion of **Reasonable Assurance**. Overall we concluded that CCG-managed schemes are clearly contributing to BCF plans and there were adequate arrangements in place to manage delivery. We made low priority recommendations to improve timeliness of funding reviews, and reporting of non-financial performance, both of which were accepted within an agreed action plan.

Member Expenses

- 1.32 The audit of member expenses was part of the agreed 2018/19 plan and was undertaken to provide assurance that appropriate arrangements are in place to help ensure:
- All claims are properly authorised and only for eligible expenditure within the guidance;
 - All claims are correctly calculated and paid; and
 - Claims are retained with supporting receipts.

- 1.33 The guidance for members in this area is comprehensive and clear, and whilst the system is heavily reliant on the integrity of the claiming member there was evidence of proportionate validation done by officers within Democratic Services.
- 1.34 We identified some minor procedural weaknesses, including the late submission of claims, a lack of VAT receipts being attached for fuel purchases (as required under rules set down by HMRC), and claims which lacked sufficient detail to identify the official duty they related to.
- 1.35 We agreed some actions for improvement with Democratic Services management, and consequently were able to give an opinion of **Reasonable Assurance**.

Surrey Local Assistance Scheme (SLAS)

- 1.36 SLAS is a discretionary fund launched by the council in 2013. It helps Surrey residents in crisis who are unable to meet their immediate, short-term needs in an emergency situation. The scheme can also provide assistance to set up home in the community where no other funds are available.
- 1.37 This audit followed a case in 2017 when significant control weaknesses in relation to pre-paid cards used by the fund led to a financial loss to the council. As a result, this audit was undertaken to ensure that robust processes were in place relating to the ordering, receipt, storage, allocation, reconciliation and monitoring of pre-paid cards. Additionally, the audit examined the use of travel warrants and the processes surrounding the purchase of white goods.
- 1.38 The previously identified control weaknesses have now been addressed and robust processes embedded within the team. Testing demonstrated that the risk of card misuse by clients has been minimised by reconciliation and monitoring processes.
- 1.39 Consequently, we were able to give an overall opinion of **Substantial Assurance** for this area.

Contact Bank Supervisors

- 1.40 The Child and Family Contact Service Team manages approximately 142 bank contact supervisors, whose role is to work flexibly to ensure pre-arranged court ordered contacts between children and family, hospital appointments and/or other settings are made.
- 1.41 An audit of mileage claims from this team was added to the agreed 2018/19 annual plan after the volume and size of mileage claims paid to this team was identified in the 2017/18 employee expenses audit: in 2017/18, a total of £317k was paid in total to this cohort of staff.

- 1.42 The audit assessed the controls and governance arrangements in place that underpinned payments made to these bank staff, covering both travel expenses and time incurred.
- 1.43 Guidance to the Contact Team was last updated in March 2018 and was found to be complete and clear. Testing of claims submitted by different bank staff in the year were supported by receipts where necessary and were found to reconcile back to records for contacts held both in local teams and on the Children's Services case management software (LCS).
- 1.44 The audit identified that the contracts of employment were, however, inconsistent between these workers with regard to referencing their place of employment, which should prescribe how their travel claims are calculated. Furthermore, travel expenses for these cohort of staff were being paid without a home to office deduction being made, contrary to HMRC guidance.
- 1.45 Consequently, we were able to draw a conclusion of **Reasonable Assurance** for this review, with actions being agreed with management to address the findings identified.

Prevent

- 1.46 The Counter Terrorism and Security Act 2015 places a statutory duty on the council to have regard to prevent people from being drawn into terrorism. This is known as the Prevent duty. Surrey County Council has established a multi-agency Prevent Partnership Group to address this duty within appropriate governance arrangements, which sits within the CFL directorate.
- 1.47 Although this audit was scheduled for summer 2018 the service has recently undertaken a self-assessment exercise against a Home Office toolkit, which allows for a structured review of Prevent duties against statutory requirements and which mirrors the intended scope of our audit.
- 1.48 The completed toolkit assessment was presented to the Prevent Executive Group in September in order to agree an action plan including ownership and timelines for actions as appropriate.
- 1.49 In light of this self-assessment, we were able to take assurance that the service was actively reviewing governance arrangements and objectively assessing them against good practice in order to improve controls and processes. Consequently, although a 'no opinion' position statement was issued for this audit based upon the current service review, we will follow-up the outcomes from the toolkit assessment later in the year.

Procurement Due Diligence

- 1.50 The purpose of this audit was to provide assurance around Procurement processes to mitigate and manage risks across the council's contracts in terms of them independently verifying a

supplier's capability to deliver fully against their contract. This audit was originally part of the 2017/18 agreed audit plan, and was carried forward into 2018/19 for completion.

- 1.51 The scope of the audit was to ensure that core due diligence checks were undertaken, namely that suppliers:
- are financially viable and able to fulfil their obligations;
 - have the capacity, capability, expertise and motivation to deliver against contract;
 - have a strong understanding of the contract conditions, deliverables and requirements; and
 - have appropriate guarantees in place (e.g. performance bonds and insurance).
- 1.52 For the majority of contracts reviewed we were able to find sufficient evidence to show appropriate due diligence was applied ahead of the contract being let. However, records to evidence these checks were sometimes missing or incomplete.
- 1.53 We also identified that there is ongoing implementation throughout 2018/19 of financial viability checks across all Orbis partners by the Procurement service, as well as work to improve ongoing contract management through uprating the Key Supplier Alert Dashboard by the Commercial Insight Team.
- 1.54 We were able to draw a conclusion of **Reasonable Assurance** for this review, with actions being agreed with management to address the findings identified.

Disaster Recovery

- 1.55 In June 2018, the Council completed the first move of its data centre and hosted applications to the new ORBIS data centre in Redhill. This process involves the relocation of servers to the new site.
- 1.56 The objective of the review was to establish the current provision of disaster recovery across the following three systems hosted by the Council:
- Exchange;
 - Active Directory; and
 - Liquid Logic.

The audit also considered the extent to which the recovery provision was understood and documented and the adequacy of staff training provided to support it.

- 1.57 As a result of our work, we were able to provide **Reasonable Assurance** that controls were operating as intended. A small number of areas for improvement were identified. These included the need to:
- remove inconsistencies in formal documentation and definition of the overarching and individual disaster recovery processes;
 - review and update policies and overarching documents that support the identification of the council's critical systems and the response to supporting disaster recovery incidents to reflect changes to critical requirements of the authority; and
 - strengthen the documentation of risks and event responses to reduce the risk of error when or loss of critical data, when recovering key systems, and the speed at which recovery can occur.
- 1.58 These areas have been discussed with management who have agreed a full review of the Disaster Recovery arrangements will be commissioned to provide strategic review and coordination, taking into account all of the findings identified in the report and to ensure IT&D provide a disaster recovery response that remains fit for purpose.

Orbis Budget Management

- 1.59 The Orbis Partnership is responsible for delivering services from a joint operating budget, which is shared by the three partnership authorities, in accordance with an Inter Authority Agreement (IAA).
- 1.60 We carried out an audit of the joint operating budget in 2016/17, when the partnership only included East Sussex County Council (ESCC) and Surrey County Council (SCC) and gave an opinion of substantial assurance; the second highest of the five opinions available at the time.
- 1.61 The gross Orbis joint operating budget for 2018/19 is £76.4m, with income budgeted at £13.8m, leaving a net budget of £62.6m. Each Council contributes to the net budget on a ratio of 55% (Surrey County Council (SCC), 24% East Sussex County Council (ESCC) and 21% Brighton and Hove City Council (BHCC)). This is the agreed contribution ratio (ACR), as defined by the IAA.
- 1.62 The purpose of this new audit was to provide assurance that:
- governance structures, including roles and responsibilities, are clearly defined, understood and effective;
 - adequate and timely management information is available that facilitates effective decision making;

- budget management reports contain materially accurate and timely information to facilitate effective budget management;
- the operating costs of Orbis are identified and apportioned across the three Orbis partners on a consistent basis and are clearly understood. Mechanisms are in place to ensure that all income and expenditure is matched to the correct Orbis partner; and
- mechanisms are in place to ensure that changes to costs for one partner that are material can be measured and reflected fairly in the agreed contribution ratio.

1.63 In undertaking this work, whilst areas of good practice were identified, we found a number of opportunities for improvement in control and we were, therefore, only able to provide an audit opinion of **Partial Assurance**. The opinion has reduced because managers, who have been managing budgets on an Orbis-wide basis, have had less clarity in their budget reports. This has particularly been the case where their budgets combine both Orbis costs and costs that are managed by Orbis officers, but are specific to sovereign authorities.

1.64 The key areas for improvement identified were to ensure that:

- clearer information is available for budget managers who hold budgets allocated on an Orbis-wide basis;
- the new budget monitoring tool includes commitments for non-staffing spend in order to strengthen budget managers' understanding of the overall position; and
- a mechanism is implemented to measure the level of service provided to the constituent authorities which, in turn, will increase opportunities to demonstrate value for money being delivered to each sovereign authority.

1.65 Actions have been agreed with management to address these issues. Significant effort has been put into providing an integrated budget and a unified approach to budget monitoring across the Orbis partnership. With the integration of Brighton & Hove City Council budgets only coming into effect in April 2018, the combined budgets and use of the new monitoring tool are still in their infancy and it is expected that they will continue to develop and improve. A follow-up audit will be carried out in 2019/20 to ascertain that progress has been made.

Other Audit Work

Children's and Adults Care Assessments

1.66 During the first quarter of 2018/19 we were commissioned by the Chief Executive to undertake a process and controls review of care assessments within Children's and Adult's Directorates. This was a significant piece of work looking into the current systems used for assessing and approving care packages, and accurately forecasting future costs.

- 1.67 We have concluded our fieldwork in Children's Services, and a draft report is currently being finalised with management. This will be issued in Quarter Three and it is apparent that a range of fundamental control weaknesses exist in this area. Issues and solutions to them have been discussed with management and we will focus ongoing efforts on working with management to provide advice, support and challenge to ongoing process redesign.
- 1.68 An exercise to undertake a similar review within Adult Social Care is currently underway and is also due to formally report in Quarter 3.

Grant certification

- 1.69 We have completed the certification of grant returns for financial year 2017/18 for the council:

- Local Transport Capital Block Funding (Pothole Action Fund)
- Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance)
- Local Transport Capital Block Funding (National Productivity Investment Fund)
- Local Transport Capital Block Funding (Flood Resilience Fund)
- Sport England funding

and also the following certification for 2018/19 year:

- Troubled Families (Payment By Results) claim period June-September 2018

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality; specialisms; and sustain a strong sovereign focus.
- 2.2 A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.
- 2.3 Work to date has focussed on the following areas:

Priority	Progress to date
Reactive investigations	The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent

	<p>procedures for recording investigations.</p> <p>During the 6-month period to date, there have been several investigations across the partnership, some previously reported in our Quarter One progress report, which have been resourced through sovereign audit teams supported by advice and direction from the counter fraud team.</p>
NFI Exercise	<p>The biennial NFI exercise is due for submission in October 2018. The counter fraud team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the counter fraud team to ensure a consistent approach is followed and good practice is shared across all partners.</p> <p>Results from the matching exercise are due in late January 2019 at which point the counter fraud team will liaise with partner authorities to review and investigate flagged matches.</p>
Counter Fraud Policies	<p>Each Orbis partner has in place a counter fraud strategy that sets out their commitment to preventing, detecting and deterring fraud. The counter fraud team will review the sovereign strategies and align with best practice to ensure a robust and consistent approach to tackling fraud. As a priority the Anti Money Laundering policies have been reviewed and updated to reflect recent changes in legislation.</p>
Fraud Risk Assessments	<p>Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.</p>
Fraud Response Plans	<p>The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These are being reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will include an increased emphasis on data analytics.</p>
Fraud Awareness	<p>The team have been rolling out a programme of fraud awareness workshops to help services identify the risk of fraud and vulnerabilities in their process and procedures. Workshops have been delivered to several teams across the partners from a mix of services.</p>
Coordinate Counter Fraud Activities with District & Borough partners	<p>Recent initiatives have taken place with D&B partners that have delivered increased collection of Council Tax & Business Rates across Surrey. Benefits from this approach will be shared with ESCC & BHCC to promote closer working and a similar approach to joint working.</p>

2.4 The following areas have been identified as priorities for the second half of the year:

- Continued refresh of Fraud Risk Assessments
- Roll out of proactive programmes and data analytics (shaped by Fraud Response Plans)

- Continue Fraud Awareness Workshops to raise awareness to risk of fraud and promote the counter fraud team
- Launch of an Orbis-wide Fraud Survey to coincide with Fraud Awareness Week
- Joint working with D&Bs to target increased Council Tax and Business Rates collection

2.5 From the reactive investigation work, the following can be drawn out as emerging threats:

- Conflict of interest – there have been several cases across the Orbis partners where external interests have conflicted with Officers paid employment and been either undeclared or inadequately managed.
- Procurement controls – internal audit have identified a number of cases where procurement controls have operated poorly. A briefing paper summarising recent issues will be shared with SOG shortly.

2.6 The developments set out above are driven by a desire to implement a coordinated counter fraud response across Orbis partners that delivers a professional and expert fraud service. Although there have been several challenges in the first year the team are on track for delivering the key priorities identified.

Summary of Completed Investigations

2.7 Whilst audit work has been undertaken in Quarter 2 on irregularity work, no investigations reached a conclusion in the period. A summary of the completed work will form part of the Quarter 3 progress update to committee.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 2, taking a rolling year into account, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the Internal Audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the second quarter:

- Transformation Programme
- Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance)

- Local Transport Capital Block Funding (National Productivity Investment Fund)
- Local Transport Capital Block Funding (Flood Resilience Fund)
- Support to Customer Relations team for a specific referral

4.2 Through the same process, audits could either be removed or deferred from the audit plan and, where appropriate, considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process. During Quarter 2, we have taken the opportunity to review available internal audit resources for the year in light of a recent staff resignation and some long term sickness absences within the service. Whilst we are proactively managing the situation and remain confident of being able to achieve sufficient coverage to provide the annual internal audit opinion, there remains a high risk that we will be unable to deliver all of the planned audit days by 31 March 2019. In such circumstances, it is necessary to re-prioritise our work and therefore the following audits have formally been removed/deferred from the plan:

- Ethical Procurement
- Transition from Children's Service to Adult Social Care
- Substance Abuse
- Impact of Savings Plans
- Traffic Management
- Surrey Wildlife Trust
- Schools Data Analysis

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 12 April 2018
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 26 July 2018
	Customer Satisfaction Levels	90% satisfied	G	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	A	42.9% completed to draft report stage by end of Q1 (against a Q1 target of 45%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	85% ¹

Appendix B

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial	There are weaknesses in the system of control and/or the level of non-compliance

¹ Includes 1 part-qualified staff

Assurance	is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

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**AUDIT & GOVERNANCE COMMITTEE
12 DECEMBER 2018**

**2017/18 AUDIT FINDINGS REPORT AND
ANNUAL STATEMENT OF ACCOUNTS FOR
S. E. BUSINESS SERVICES LTD, SURREY CHOICES LTD &
HALSEY GARTON PROPERTY LTD**

Purpose of the report:

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2017/18 financial statements of S.E.Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd.

Recommendations:

That the Audit and Governance Committee consider the contents of the 2017/18 Audit Findings Report for S. E. Business Services Ltd, Surrey Choices Ltd & Halsey Garton Property Ltd. The Annual Accounts for each company are shared as background information.

Introduction:

1. The Council has three wholly owned Local Authority Trading Companies:
 - S.E.Business Services Ltd
 - Surrey Choices Ltd
 - Halsey Garton Property Ltd.
2. The oversight of these companies is provided by the Council's Shareholder Board which was created following the report to Cabinet in March 2013 outlining the Council's strategic approach to innovation and evaluating new models of delivery. It has been established in accordance with best practice governance principles to ensure effective over-sight and alignment with the strategic objectives and values of the Council. The Board's responsibilities and powers include:
 - appointing and removing directors;
 - approval of annual business plans; and
 - reviewing the financial and overall performance of trading companies.

3. The Board safeguards the Council's interest and takes decisions in matters that require the approval of the Council as owner or a shareholder of a company. Shareholder control is exercised over all companies owned by the Council, and in relation to any shares held whether the purpose is trading, service provision, or investment. Decisions in relation to the day to day operation of companies are taken by the directors of each company.
4. The Shareholder Board provides an Annual Report which is considered by Cabinet and by full Council. The Corporate Overview Select Committee is able to scrutinise the Shareholder Board and the performance of the Council's shareholdings.
5. The audit findings report and financial statements for the council's wholly owned companies is shared with the Audit & Governance Committee for information. These were reviewed and considered by the Shareholder Board at their meeting on 18 September. The following documents are provided-
 - Annex A – S E Business Services Ltd financial statements 2017/18
 - Annex B – Grant Thornton audit findings report for S E Business
 - Annex C – Surrey Choices Ltd financial statements 2017/18
 - Annex D – Grant Thornton audit findings report for Surrey Choices Ltd
 - Annex E – Halsey Garton Property Ltd financial statements 2017/18
 - Annex F – Grant Thornton audit findings report for Halsey Garton Property Ltd

Audit Findings:

6. The Directors of the companies approved the 2017/18 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2018.
7. The Audit Findings reports summarise the finding of the 2018/19 audit undertaken by Grant Thornton. The reports set out a summary of the work carried out and the conclusions reached.
8. At the beginning of an 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 summaries the work completed in relation to these areas.

Conclusions:

The Audit Findings Reports are now presented to this Committee for information.

Financial and value for money implications

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

Equalities and Diversity Implications

There are no direct equalities implications of this report.

Risk Management Implications

There are no direct risk management implications of this report.

Contact Officer:

Susan Smyth, Head of Strategic Finance (Business Development & Investment) and
Secretary to the Shareholder Board
Tel: 020 8541 7588

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S.E. Business Services Limited

Company Registration Number:
08578463
(England and Wales)

**Report of the Directors and
Audited Financial Statements**

Period of accounts
Start date: 01 April 2017
End date: 31 March 2018

**S.E. Business Services Limited
Contents of the Financial Statements
for the Period Ended 31 March 2018**

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Profit and Loss Account	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 to 15

**S.E. Business Services Limited
Company Information
for the Period Ended 31 March 2018**

Directors:

E Mills
R Crossley
S Ruddy
J Harris

Registered office:

County Hall
Penrhyn Road
Kingston Upon Thames
Surrey
KT1 2DN

Company Registration Number: 08578463 (England and Wales)

Ultimate Parent:

Surrey County Council
County Hall
Penrhyn Road
Kingston Upon Thames
Surrey
KT1 2DN

Auditor:

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

**S.E. Business Services Limited
Report of the Directors
for the Period Ended 31 March 2018**

The directors present their report with the financial statements of the company for the period ended 31 March 2018.

Principal activities

The principal activities of the company in the period under review were:
Professional Business Services including IT managed services, data centre hosting and fire and rescue resilience services.

Directors

The directors shown below have held office during the whole of the year from 01 April 2017 to 31 March 2018.

E Mills
S Ruddy

The following directors were appointed during the period 01 April 2017 to 31 March 2018.

R Crossley was appointed on the 21 June 2017
J Harris was appointed 5 February 2018

Political and charitable donations

None.

Company policy on the employment of disabled persons

It is the company's policy to give employment to disabled persons wherever practicable and to make all reasonable adjustments to enable a person with a disability to perform to their highest ability.

Directors' responsibilities statement

The directors are responsible for preparing 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;

**S.E. Business Services Limited
Report of the Directors
for the Period Ended 31 March 2018**

Directors' responsibilities statement (continued)

- make judgments and accounting estimates that are reasonable and prudent, and
- 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.

Provision 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 information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

Auditor

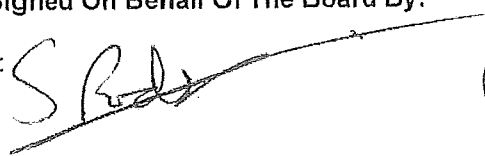
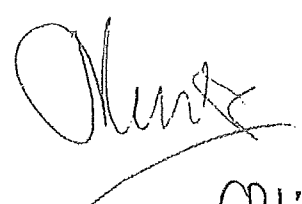


The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by part 15 of the Companies Act 2006.

This report was approved by the board of directors on 30th August 2018

And Signed On Behalf Of The Board By:

Name:

Status: Director



Independent auditor's report to the members of S.E. Business Services Limited

Opinion

We have audited the financial statements of S. E. Business Services Limited (the 'company') for the year ended 31 March 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

**Independent auditor's report to the members of S.E. Business Services Limited
continued**

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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; or

Independent auditor's report to the members of S.E. Business Services Limited
continued

- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

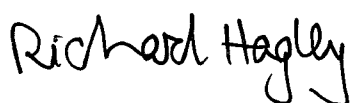
Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Richard Hagley BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
30 August 2018

S.E. Business Services Limited

Profit and Loss Account

for period ended 31 March 2018

	Note	2018 £	2017 £
Turnover		2,052,772	2,051,407
Cost of sales	5	<u>(1,397,573)</u>	<u>(1,379,290)</u>
Gross profit		655,199	672,117
Administrative expenses		<u>(148,691)</u>	<u>(147,764)</u>
Operating profit		506,508	524,353
Interest payable and receivable	8	<u>55</u>	<u>(51)</u>
Profit on ordinary activities before taxation	7	506,563	524,302
Tax on Profit on ordinary activities	9	<u>(35,492)</u>	<u>(90,979)</u>
Profit for the financial year		<u>471,071</u>	<u>433,323</u>

The notes form part of these financial statements.

S.E. Business Services Limited

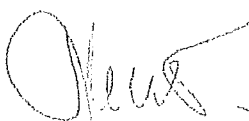
Balance Sheet

as at 31 March 2018

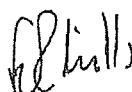
	Note	2018 £	2017 £
Current Assets			
Debtors	11	305,087	497,867
Cash at bank and in hand		<u>801,589</u>	<u>812,776</u>
		1,106,676	1,310,643
Creditors: amounts falling due within one year	12	(872,072)	(707,110)
		(872,072)	(707,110)
Net current assets		<u>234,604</u>	<u>603,533</u>
Net assets		<u>234,604</u>	<u>603,533</u>
Capital and Reserves			
Called up equity and share capital	13	1	1
Non-distributable reserve	3.3	220,717	159,962
Profit and loss account		13,886	443,570
		<u>234,604</u>	<u>603,533</u>

The financial statements were approved by the Board of Directors on 30th August 2018

Signed on behalf of the board of directors:


Director



Company Registration no: 08578463

The notes form part of these financial statements.

S.E. Business Services Limited
Statement of Changes in Equity
for the year ended 31 March 2018

	Share Capital	Non distributable reserve	Profit and loss Account	Total
	£	£	£	£
As at 31 March 2015	1	-	468,820	468,821
Profit and total comprehensive income for the year	-	-	501,389	501,389
Issue of shares	-	-	-	-
Dividends paid in respect of the year 14/15			(400,000)	(400,000)
Group Tax Relief	-	145,533	(145,533)	-
At 31 March 2016	1	145,533	424,676	570,210
Profit and total comprehensive income for the year	-	-	433,323	433,323
Issue of shares			-	-
Dividends paid in respect of the year 15/16	-	-	(400,000)	(400,000)
Group Tax Relief		14,429	(14,429)	-
At 31 March 2017	1	159,962	443,570	603,533
Profit and total comprehensive income for the year	-	-	471,071	471,071
Issue of shares			-	-
Dividends paid in respect of the year 16/17	-	-	(440,000)	(440,000)
Dividends agreed for the year 17/18	-	-	(400,000)	(400,000)
Group Tax Relief		60,755	(60,755)	-
At 31 March 2018	1	220,717	13,886	234,604

The notes form part of these financial statements.

S.E. Business Services Limited
Notes to the Financial Statements
for the year ended 31 March 2018

1. Company Information

S.E. Business Services Limited is a private Company, limited by shares, domiciled in England and Wales, Company Registration no: 08578463. The registered office is County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN.

2. Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 Section 1A Small Entities, and with the Companies Act 2006. There have been no material departures from this standard.

The financial statements have been prepared on the historical cost basis.

The Financial Statements are presented in Sterling (£).

2.1 Going Concern

S.E. Business Services Limited has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that S.E. Business Services Limited is well placed to manage its business risks successfully.

After reviewing S.E. Business Services Limited forecast and projections, the directors have a reasonable expectation that S.E. Business Services Limited has adequate resources to continue in operational existence for the foreseeable future. S.E. Business Services Limited therefore continues to adopt the going concern basis in preparing its financial statements.

3. Accounting Policies

3.1 Turnover

The turnover shown in the profit and loss account represents revenue earned during the period, exclusive of VAT.

3.2 Recognition of income and expenditure

Revenue (income) from the sale of goods and provision of services is recognised when S.E. Business Services transfers the goods or completes the delivery of a service.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

3.3 Non Distributable Reserves

Reserves are created when a company sets aside specific amounts for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the Profit and Loss Account in the Statement of changes in Equity.

The Company has been able to claim group tax relief due to the surrender of losses from another company within the Surrey County Council group of companies. These losses have been deducted from the company's total profits, reducing the amount of corporation tax payable.

The Company is taking a prudent approach and is treating this tax relief benefit as a non-distributable reserve since it may be reviewed by HMRC within 3 years of the claim. The reserve will be held for a period of three years with the treatment reviewed annually.

4. Current Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted by the balance sheet date.

5. Cost of Sales and Staff Costs

	2018	2017
	£	£
Cost of Sales before staff costs	1,152,165	1,192,072
Wages and Salaries	195,754	181,171
Social Security Costs	30,396	4,486
Pension Costs	19,258	1,561
	<u>1,397,573</u>	<u>1,379,290</u>

S.E. Business Services has three full time employees, all of whom are enrolled in a National Employment Savings Trust (NEST) pension scheme. Contributions payable are recognised in the profit and loss account when due. All other employees are engaged on a part-time basis. The company has four directors who were unpaid.

6. Average number of Employees

During 17/18 the average number of employees was 48 (2 full time employees and 46 who receive a monthly retainer). In 16/17 this was 52.

7. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

Auditor's Remuneration and Tax fees:

	2018	2017
	£	£
Grant Thornton Audit Fees	12,066	12,400
RSM Tax Compliance services	850	1,750
	<u>12,916</u>	<u>14,150</u>

8. Interest Payable and Similar Charges

	2018	2017
	£	£
Other interest income	(88)	-
Misc Bank charges	33	51
	<u>(55)</u>	<u>51</u>

9. Taxation

The tax charge on the profit on ordinary activities for this period was as follows:

	2018	2017
	£	£
UK Corporation Tax	35,492	90,979
Deferred Tax		
Tax on profit on ordinary activities	<u>35,492</u>	<u>90,979</u>
Profit on ordinary activities before taxation	<u>506,563</u>	<u>524,302</u>
Rate of tax for period	19%	20%
Profit on ordinary activities before taxation multiplied by the rate of tax for period	96,247	104,860
Expenses not deductible to tax purposes		548
Accelerated capital allowances		
Adjustments in respect of prior periods	(60,755)	
Group Tax Relief Current Year	-	(14,429)
Group Tax Relief Prior Year		
Current tax charge	<u>35,492</u>	<u>90,979</u>

The adjustment in respect of prior periods is the difference between the group tax relief for 2016/17 that was estimated within the 2016/17 accounts and the final tax return. The adjustment resulted from a change in accounting estimate; the 2016/17 tax estimate was prepared using the best information available to the directors available at the time.

10. Loans and Overdraft

There were no intergroup loan agreements in 17/18.

11. Debtors

	2018	2017
	£	£
Trade Debtors	240,951	478,921
Prepayments and accrued income	64,136	18,946
	<u>305,087</u>	<u>497,867</u>

All amounts are payable within one year

12. Creditors

	2018	2017
	£	£
VAT	7,663	1,593
Accruals and Deferred Income	169,588	52,585
Corporation Tax	35,492	90,979
Trade Creditors	259,329	561,953
Dividend payable to SCC	400,000	
	<u>872,072</u>	<u>707,110</u>

All amounts are payable within one year

13. Called Up Share Capital

Allotted and called up

Class	Number of Shares	Nominal Value per Share	Total
Ordinary	1	1	1

The authorised share capital of S.E Business Services Limited consists of 100 ordinary shares with a nominal value of £1, of which 1 ordinary share has been issued at par.

14. Related Party Disclosures

S.E. Business Services Limited is a 100% subsidiary of Surrey County Council, which is the ultimate controlling party. S.E Business services Limited paid a Dividend of £440,000 to Surrey County Council on 19th July 2017. An interim Dividend of £400,000 has been agreed for year ending 31st March 2018. Surrey County Council consolidates S.E. Business Services Limited into their group accounts. S.E. Business Services Limited is exempt from disclosing other related party transactions as they are with the parent Surrey County Council.

The Audit Findings for S. E. Business Services Limited

Year ended 31 March 2018
August 2018

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Board of directors
S. E. Business Services Limited
County Hall
Penrhyn Road
Kingston Upon Thames
Surrey
KT1 2DN
August 2018

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

T +44 (0)207 383 5100
www.granthornton.co.uk

Dear Sirs

Audit Findings for S. E Business Services Limited for the year ended 31 March 2018

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) 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), 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.

Richard Hagley

Director
For Grant Thornton UK LLP

Chartered Accountants

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Contents



**Your key Grant Thornton
team members are:**

Richard Hagley
Engagement Lead

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Manager

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Section	Page
1. Audit findings	5
2. Independence, ethics, fees and non-audit services	12
3. Communication of audit matters	14

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Status of the audit

Our work is now complete. There are currently no matters of which we are aware that would require modification of our audit opinion.

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Audit opinion

Our anticipated audit report opinion will be unqualified.

Section 1: Audit findings

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Audit findings – Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Significant risks identified in our Audit Plan

Commentary

1 Improper revenue recognition Auditor commentary

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

- We completed the following procedures:
 - documented and considered management's controls over revenue recognition;
 - reviewed the appropriateness of management's revenue recognition policies;
 - substantively tested all material revenue streams; and
 - substantively tested year end debtors.

No issues in relation to improper revenue recognition were noted from our audit procedures completed.

2 Management override of controls

Auditor commentary

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities.

- We completed the following procedures:
 - reviewed accounting estimates, judgments and decisions made by management;
 - reviewed of unusual significant transactions.

No issues in relation to management override of controls were noted from our audit procedures completed.

Audit findings – Reasonably possible risks

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 is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental.

Reasonably possible risks identified in our Audit Plan

Commentary

1

Revenue

- Contract accounting not consistent with terms (Existence / Occurrence)

Auditor commentary

- We completed the following procedures:
 - documented management's arrangements for accounting for contract revenues; and
 - reviewed significant contracts to check whether contract revenues have been accounted for appropriately.

No issues in relation to accounting for contract revenues were noted from our audit procedures completed.

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2

Operating expenses

- Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period (Completeness)

Auditor commentary

- We completed the following procedures:
 - documented management's controls over the recording of expenditure and year end accruals;
 - performed cut-off testing to assess whether transactions occurring close to the year end were recorded in the correct accounting period;
 - performed substantive testing of expenditure and year end creditor and accrual balances; and
 - reviewed the appropriateness of the approach adopted by management for estimating year end expenditure accruals.

No issues in relation to operating expenses and creditors were noted from our audit procedures completed.

3

Employee remuneration

- Employee remuneration and benefit obligations and expenses understated (Completeness)






Auditor commentary

- We completed the following procedures:
 - documented management's controls in place in relation to the recording of payroll expenditure;
 - tested a sample of payroll transactions to supporting records; and
 - reconciled payroll records to the financial statements




No issues in relation to employee remuneration expenditure were noted from our audit procedures completed.



Audit findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Going concern	<ul style="list-style-type: none"> After reviewing the Company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. 	<ul style="list-style-type: none"> We have reviewed management's assessment of going concern and are satisfied that the going concern basis is appropriate for the financial statements for the year ended 31 March 2018. 	 Green
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods and provision of services is recognised when SE Business Services transfers the goods or completes the delivery of a service. 	<ul style="list-style-type: none"> We have reviewed the Company's revenue recognition policies and have verified that they are reasonable and compliant with the requirements of FRS 102. 	 Green
Non-distributable reserves	<ul style="list-style-type: none"> The Company has claimed group tax relief due to the surrender of losses from another company within the Surrey County Council group. The Company is treating this tax benefit as a non-distributable reserve since it may be reviewed by HMRC within 3 years of the claim. The reserve will be held for a period of three years with the treatment reviewed annually. 	<ul style="list-style-type: none"> The Directors obtained advice and applied for group tax relief over the last three financial years, giving rise to a total balance on the reserve of £220,717. HMRC have accepted the returns provided to them by the company, however, there is a period of 4 years from the date of the end of the period in which HMRC is able to challenge the treatment applied. Management discussed the use of a non-distributable reserve for the period in which the tax treatment is open to challenge. We are satisfied with the adoption of this approach. 	 Green
Other judgements and estimates	<ul style="list-style-type: none"> Other significant estimates and areas of judgement in the financial statements include: <ul style="list-style-type: none"> expenditure accruals; and judgement that the prior year tax adjustment is a change in accounting estimate rather than a prior period error. 	<ul style="list-style-type: none"> We are satisfied regarding the appropriateness of significant accounting judgements and estimates reflected within the accounts. Management have accounted for a £60,755 prior period tax adjustment in respect of group tax relief from Surrey Choices Limited as change in accounting estimate by recognising the change prospectively in 2017/18, rather than by treating it as a prior period error and restating the accounts. While we are satisfied that management's judgement that this adjustment constitutes a change in accounting estimate is reasonable, we have requested that the accounts be updated to provide disclosure of this judgement. 	 Green
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102. 	<ul style="list-style-type: none"> We have reviewed the Company's other critical accounting policies and do not have any comments to make. 	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

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 in our Audit Plan. We have not been made aware of any incidents of fraud in the year 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">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 with laws and regulations.
4	Written representations	<ul style="list-style-type: none">Representations will be requested from management in respect of the significant assumptions used in making accounting estimates.
5	Confirmation requests from third parties	<ul style="list-style-type: none">We requested from management permission to send a confirmation request HSBC in respect of the Company's closing bank balance as at 31 March 2018. This permission was granted and the requested letter was received.
6	Disclosures	<ul style="list-style-type: none">We identified no significant disclosure errors or omissions in the financial statements.
7	Internal controls	<ul style="list-style-type: none">During our audit we did not note any significant deficiencies in internal controls to report.

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Adjusted misstatements

The table below summarises the one amendment between the draft and final financial statements:

Journal reference	Detail	Profit and Loss Account		Balance Sheet		Profit effect (£)
		Debit (£)	Credit (£)	Debit (£)	Credit (£)	
	Profit for the year per draft financial statements					470,456
1	Creditors: amounts falling due within one year			525		-
	Tax on profit on ordinary activities		525			525
	Other tax adjustment		90			90
	Adjustment to the current tax expense for the year - the draft financial statements were prepared prior to the preparation of the tax calculation for the year and were updated once the tax calculation was finalised					
2	Profit and loss account			400,000		-
	Creditors: amounts falling due within one year				400,000	-
	Adjustment to accrue for the dividend declared for 2017/18					
	Profit for the year per final financial statements					471,071

Section 2: Independence, ethics, fees and non-audit services

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Independence, ethics, fees and non-audit services

The table below sets out the total fees for audit and non-audit services charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

	Fees £	Threat identified	Safeguards
Audit of company	£12,000	None noted	N/A
Total audit	£12,000		

- No non-audit services have been provided to the Company by Grant Thornton UK LLP.
- The audit fee was not provided on a contingent fee basis.

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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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Section 3: Communication of audit matters

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. 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 including significant risks and Key Audit Matters	•	
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	•	•
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	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), 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 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, findings 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 an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton at a glance

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- Over 47,000 people
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FTSE 100 are
non-audit clients

56%



People
worldwide

47,000



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Largest auditor, UK's
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companies

6th



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Grant Thornton
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140+





Financial Statements

Surrey Choices Limited

For the year ended 31 March 2018

Registered number: 08931490

Company Information

Directors	B A Muir (appointed 5 February 2018) J.J. Ratcliff (appointed 1 August 2018)
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 30 Finsbury Square London EC2A 1AG

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Statement of financial position	8
Statement of cash flows	9
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Directors' Report

For the year ended 31 March 2018

The directors present their report, the strategic report, and the financial statements for the year ended 31 March 2018.

Principal activities

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

Results and dividends

The profit for the year, after taxation, amounted to £396,544 (2017 - loss £867,356).

No dividend was declared for the year.

Directors

The directors who served during the year were:

K M Kilburn (resigned 10 August 2018)

M Farrow (resigned 18 August 2017)

PJ Fell (appointed 26 July 2017, resigned 31 July 2018)

B A Muir (appointed 5 February 2018)

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:

Directors' Report

For the year ended 31 March 2018

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- 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 the Company's 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.

This report was approved by the board on 11th September 2018 and signed on its behalf.



Jeremy Ratcliff
Director

Strategic Report

For the year ended 31 March 2018

The directors present their strategic report for the year ended 31 March 2018.

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 £14,396,875 and a total comprehensive income for the financial period of £ 535,544. At 31 March 2018, the company had net liabilities excluding pension liabilities of £3,643,029 and net liabilities including pension liabilities of £4,568,029. 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 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.

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 11th September 2018 and signed on its behalf.



Jeremy Ratcliff
Director

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

Opinion

We have audited the financial statements of Surrey Choices Limited (the 'company') for the year ended 31 March 2018 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report and the strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and the strategic report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report or the strategic report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors for the financial statements

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

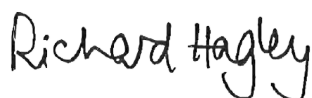
Independent Auditor's Report to the Members of Surrey Choices Limited

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Richard Hagley BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

13/9/2018

Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	2018 £	2017 £
Turnover	3	14,396,875	14,468,101
Cost of Sales		<u>(11,936,763)</u>	<u>(13,531,354)</u>
Gross Profit		2,460,112	936,746
Administrative Costs		<u>(1,923,893)</u>	<u>(1,676,747)</u>
Operating Profit /(Loss)	4	536,219	(740,001)
Interest Payable and Financial expenses	8	<u>(139,675)</u>	<u>(129,478)</u>
Profit /(Loss) before tax		396,544	(869,479)
Tax on Profit /(Loss)	9	<u>0</u>	<u>2,123</u>
Profit /(Loss) for the year		<u><u>396,544</u></u>	<u><u>(867,356)</u></u>
Other Comprehensive Income for the Year			
Profit /(Loss) for the financial period		396,544	(867,356)
Actuarial Gains /(Losses) on defined benefit pension scheme	20	139,000	(436,000)
Movement of deferred tax relating to pension liability		<u>0</u>	<u>97,200</u>
Other Comprehensive Income for the Year		139,000	(338,800)
Total Comprehensive Income for the Year		<u><u>535,544</u></u>	<u><u>(1,206,156)</u></u>

Statement of Financial Position

As at 31st March 2018

	Note	2018 £	2017 £
Fixed assets			
Tangible Assets	10	<u>151,100</u>	<u>419,083</u>
<u>Current Assets</u>			
Debtors	11	376,523	375,295
Cash at Bank and in Hand	12	<u>754,891</u>	<u>67,803</u>
		1,131,414	443,098
Creditors: Amounts Falling due within one year	13	<u>(2,125,543)</u>	<u>(2,483,754)</u>
Net Current Liabilities		<u>(994,129)</u>	<u>(2,040,656)</u>
Total Assets less current Liabilities		(843,029)	(1,621,573)
Creditors: Amount falling due after more than one year	14	(2,800,000)	(2,800,000)
Pension Liability	20	(925,000)	(682,000)
Deferred Tax Liability	17	-	-
Net Liabilities		<u>(4,568,029)</u>	<u>(5,103,573)</u>
Capital and Reserves			
Called-up Share Capital	19	100	100
Profit and Loss Account	18	<u>(4,568,129)</u>	<u>(5,103,673)</u>
		<u>(4,568,029)</u>	<u>(5,103,573)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf.
 Director 11th September 2018



Jeremy Ratcliff

Statement of cash flows

For the year ended 31 March 2018

	2018	2017
	£	£
Cash flow from operating activities		
Profit /(Loss) for the financial year	396,544	(867,356)
Adjustments for:		
Depreciation of tangible assets	306,649	415,802
Interest paid	88,675	129,478
Pension service cost recognised	566,000	455,000
Employee's pension contributions	(184,000)	(241,000)
Pension deferred tax liability	0	(2,123)
Decrease /(increase) in trade and other debtors	(1,228)	45,606
(Decrease) /increase in trade creditors	(358,212)	(374,569)
Cash flow from operations	814,429	(439,162)
Income taxes paid	-	-
Net cash used by from operating activities	814,429	(439,162)
Cash flows from investing activities		
Improvement of Lease property	(16,955)	(126,379)
Purchase of other fixed assets	(21,711)	(11,069)
Net cash from investment activities	(38,666)	(137,448)
Cash flows from financing activities		
Issue of ordinary share capital	-	-
Loan Received	-	535,000
Loan repaid	-	-
Interest paid	(88,675)	(129,478)
Net cash generated from financing activities	(88,675)	405,522
Net increase/(decrease) in cash and cash equivalents	687,088	(171,088)
Cash and cash equivalents at the beginning of the year	67,803	238,891
Cash and cash equivalents at the end of the year	754,891	67,803

Statement of Changes in Equity

For the year ended 31 March 2018

	Share Capital	Profit and Loss Account	Total Equity
	£	£	£
At 31 March 2016	100	(3,897,517)	(3,879,417)
Loss for the year		(867,356)	(867,356)
Other Comprehensive income for the period			
Actuarial Gain/ Loss net of tax		(338,800)	(338,800)
Issue of shares	-	-	-
Dividend paid	-	-	-
At 31 March 2017	100	(5,103,673)	(5,103,573)
Profit for the year		396,544	396,544
Other Comprehensive income for the period			
Actuarial Gain/ Loss net of tax		139,000	139,000
Issue of shares	-	-	-
Dividend	-	-	-
At 31 March 2018	100	(4,568,129)	(4,568,129)

The notes on pages 10 to 26 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2018

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.

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 have further received a letter of support from the Council confirming support for a period of at least 12 months from the date of approval of the statutory financial statements for the financial year ended 31 March 2018. 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

Notes to the Financial Statements

For the year ended 31 March 2018

1.5 Operating leases

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

1.6 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.

1.7 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.

1.8 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.

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 Statement of Comprehensive Income.

Notes to the Financial Statements

For the year ended 31 March 2018

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 Statement of Comprehensive Income 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 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 Statement of Comprehensive Income 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.

Notes to the Financial Statements

For the year ended 31 March 2018

1. Accounting policies (continued)

Provisions are charged as an expense to the Statement of Comprehensive Income 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 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 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 have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Notes to the Financial Statements

For the year ended 31 March 2018

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 benefits**
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.
- iv) **Deferred tax asset**
Management reviews assets at each reporting date to ensure 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. The current prudent judgement made by management is that the deferred tax asset is not recoverable (i.e. although there is a total potential deferred tax asset of £786,369, management do not consider there is evidence that sufficient taxable profits will be available in the future to utilise this asset against, given the current status of contract negotiations with Surrey CC). Deferred tax assets are analysed further in note 17.

Notes to the Financial Statements
For the year ended 31 March 2018

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 profit/(loss)

The operating profit/(loss) is stated after charging:

	2018	2017
	£	£
Operating leases - property	876,308	1,067,880
Operating leases - motor vehicles	109,916	-
Depreciation of owned assets	306,649	415,802
Auditor's remuneration	20,500	30,500
Defined contribution pension cost	184,000	241,000
Other scheme contribution pension cost	<u>780,291</u>	<u>434,885</u>

5. Auditor's remuneration

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

	2018	2017
	£	£
Audit of financial statements	17,000	26,000
Taxation compliance service *	-	1,000
Other audit related service: certification of Teachers' Pensions	<u>3,500</u>	<u>3,500</u>
	<u>20,500</u>	<u>30,500</u>

* Taxation compliance service in 2018 was provided by an independent company, RSM UK Tax and Accounting, for a fee of £1745.

Notes to the Financial Statements

For the year ended 31 March 2018

6. Particulars of employees

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

	2018	2017
	£	£
Wages and salaries	6,728,777	7,305,478
Social security	561,920	626,003
Pension cost	964,291	1,130,885
	<u>8,254,988</u>	<u>9,062,365</u>

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

	2018	2017
Support workers and operational staff	261	264
Managers	17	25
	<u>278</u>	<u>289</u>

7. Directors' remuneration

	2018	2017
	£	£
Wages and salaries	128,874	192,583
Social security Cost	16,565	24,524
Other Pension costs	2,978	5,846
	<u>148,417</u>	<u>222,953</u>

8. Interest payable and financial expenses

	2018	2017
	£	£
Interest on SCC Loan	88,675	87,478
Other finance costs	51,000	42,000
	<u>139,675</u>	<u>129,478</u>

Notes to the Financial Statements
For the year ended 31 March 2018

9. Taxation

	2018	2017
	£	£
Current tax		
United Kingdom Corporation tax at 19% (2017 20%)	-	-
Deferred tax		
Origination and reversal of timing differences	(69,012)	-
Prior year deferred tax adjustment	69,012	2,123
Total deferred tax (expenditure)/income on ordinary activities	0	2,123
Total current and deferred tax relating to items of Other Comprehensive income		97,200
Prior year deferred tax adjustment		
Total Tax	0	99,323

Factors affecting tax charge for the year/period

The tax assessed for the year is higher than 2017. The standard rate of corporation tax in 2017 of 20% has reduced to 19% in 2018. The differences are explained below:

	2018	2017
	£	£
Profit/(Loss) on ordinary activities before tax	396,544	(869,479)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 -20%)	75,343	(173,896)
Effects of:		
Fixed asset differences	2,829	
Expenses not deductible for tax purposes	36	(11,334)
Adjustments to brought forward values	15	-
Amounts (charged)/ credited directly to Statement of Recognised		
Gains /Losses or otherwise transferred	26,410	-
Group relief surrendered/(claimed)		14,429
Adjustments to tax charge in respect of previous period	-	(77,475)
Adjustments to tax charge in respect of previous periods – deferred tax	(3,885)	-
Adjust closing deferred tax to average rate of 19%	-	-
Deferred tax (charged)/ credited directly to equity	-	-
Adjust opening deferred tax to average of 19%	(100,748)	-
Other deferred tax not recognised	-	250,399
Unexplained difference	-	(4,246)
Tax charge/ (credit) for the period	0	(2,123)

Notes to the Financial Statements
For the year ended 31 March 2018

10. Fixed Assets

	Leasehold property Improvements £	Furniture, Fixtures & Equipment £	Former Council Fixtures & Fittings £	Computer Equipment £	Total £
Cost					
At 1 April 2017	445,073	128,515	411,504	368,225	1,353,317
Additions	16,955	9,727	-	11,984	38,666
Disposal	-	-	-	-	-
At 31 March 2018	462,028	138,241	411,504	380,209	1,391,983
Depreciation					
At 1 April 2017	219,609	60,891	388,141	265,593	934,234
Provided in the year	139,975	43,817	23,363	99,494	306,649
Disposal	-	-	-	-	-
At 31 March 2018	359,584	104,708	411,504	365,087	1,240,883
Net Book amount at At 31 March 2018	102,444	33,533	-	15,122	151,100
Net Book amount at 31 March 2017	225,464	67,623	23,363	102,632	419,083

Notes to the Financial Statements

For the year ended 31 March 2018

11. Debtors

	2018	2017
	£	£
Trade debtors	422,526	278,896
Prepayments and accrued income	58,294	127,786
Provision for bad debt	(104,297)	(31,387)
	<u>376,523</u>	<u>375,295</u>

12. Cash and cash equivalents

	2018	2017
	£	£
Cash at bank and in hand	<u>754,891</u>	<u>67,803</u>

13. Creditors: Amount falling due within one year

	2018	2017
	£	£
Trade creditors	371,921	855,778
Other taxes and social security	542,822	325,642
Other creditors *	1,048,440	1,091,568
Accruals	<u>162,360</u>	<u>210,767</u>
	<u>2,125,543</u>	<u>2,483,754</u>

* Includes prepaid service income of £1,052,016 (2017 - £1,079,192)

Notes to the Financial Statements

For the year ended 31 March 2018

14. Creditors: Amounts falling due after more than one year

	2018	2017
	£	£
Amount owed to parent undertaking	<u>2,800,000</u>	<u>2,800,000</u>

Loans included within creditors, are analysed as follows:

	2018	2017
	£	£
2.5% above base revolving loan	2,100,000	2,100,000
4.24% set-up loan facility	<u>700,000</u>	<u>700,000</u>
	<u>2,800,000</u>	<u>2,800,000</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 £2,100,000 of which currently £2,100,000 has been drawn down; this was originally due to mature in June 2019, but SCC will not seek repayment of these loans for at least 12 months from the date of approval of the 2017/18 accounts.

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 contractual due date for the repayment was originally August 2019, but this has been extended by SCC.

Interest is paid six monthly in arrears.

Notes to the Financial Statements

For the year ended 31 March 2018

15. Leasing commitments

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

	2018	2017
	£	£
Within one year *	981,670	870,473
Between one and five years *	744,409	1,513,199
* 2018 includes motor vehicle lease		

16. Financial instruments

Financial instruments are measured at amortised cost

Financial assets	2018	2017
	£	£
Debtors	318,229	247,509
Cash	754,891	67,803
	<u>1,073,120</u>	<u>315,312</u>
Financial liabilities		
Trade creditors	510,408	855,778
Other creditors	297,270	223,143
Loans	2,800,000	2,800,000
	<u>3,607,678</u>	<u>3,878,921</u>

17. Deferred taxation

	2018	2017
	£	£
Opening deferred tax (liability)/asset	-	(99,323)
Released during/ (Charged for) year in Profit and loss statement	-	2,123
Released during/ (Charged for) year in Other comprehensive income statement	-	97,200
Closing deferred tax (liability) /asset at 31 March	<u>-</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31 March 2018

The deferred tax is made up as follows:

	2018	2017
	£	£
Accelerated Capital Allowances	-	-
Other short term timing differences	-	-
Unrelieved tax losses - not recognised	-	-
Gains/(losses) on net defined benefit scheme assets	-	-
Deferred Tax liability	-	-

18. Profit and Loss Account

	2018	2017
	£	£
Opening balance	(5,103,673)	(3,897,517)
Profit/(Loss) for the financial period	396,544	(867,356)
Actuarial (loss)/gain on defined benefit pension scheme asset	139,000	(436,000)
Deferred tax asset/(liability) on defined benefit scheme asset	-	97,200
Closing balance as at 31 March	(4,568,129)	(5,103,673)

19. Share Capital

	2018	2017
	£	£
Allotted, called up and fully paid		
100 - Ordinary shares of £1 each	100	100

Notes to the Financial Statements

For the year ended 31 March 2018

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 TPS is a defined benefit scheme accounted for as defined contribution scheme. As a multi-employer scheme and due to the way, the scheme is operated, it is not practicable to obtain a reliable estimate of Surrey Choices' share of the liabilities.

The changes in obligation as at 31 March 2018 is £544,000 (2017 - £956,000) with a net liability of £925,000 (2017 - £682,000). 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 31 March 2018 is £515,000 (2017 - £413,000) and the net finance cost £51,000 (2017 - £42,000). The actuarial loss for the period charged to the statement of recognised gains and losses is gain- £139,000 (2017 – loss £436,000).

	2018 £	2017 £
Scheme assets	5,790,000	5,489,000
Scheme obligations	(7,752,000)	(7,208,000)
	<u>(1,962,000)</u>	<u>(1,719,000)</u>
Net liability at transfer - obligation of Surrey County Council	(1,037,000)	(1,037,000)
Net liability arising since transfer	<u>(925,000)</u>	<u>(682,000)</u>
	<u>(1,962,000)</u>	<u>(1,719,000)</u>

Reconciliation of opening and closing balances of the defined benefit obligation

	2018 £	2017 £
Defined Benefit obligation at the start of the period	7,208,000	6,252,000
Current Service cost	515,000	413,000
Interest Expense	202,000	233,000
Contributions by plan participants	85,000	113,000
Actuarial losses /(gains)	(194,000)	283,000
Benefit paid	(64,000)	86,000
Losses /(gains) on curtailments	-	-
Defined benefit obligation at the end of the period	<u>7,752,000</u>	<u>7,208,000</u>

Notes to the Financial Statements

For the year ended 31 March 2018

Pension (continued)

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

	2018	2017
	£	£
Fair value of plan assets at the start of the period	5,489,000	5,183,000
Income Interest	151,000	191,000
Actuarial gains /(losses)	(55,000)	(153,000)
Benefit paid	(64,000)	(86,000)
Contribution by the Employer	184,000	241,000
Contribution by plan participants	85,000	113,000
Fair value of plan assets at the end of the period	5,790,000	5,489,000

Defined benefit costs recognised in profit or loss

	2018	2017
	£	£
Current service cost	515,000	413,000
Net interest cost	51,000	42,000
Loss on curtailments	-	-
Defined benefit costs recognised in profit and loss account	566,000	455,000

Defined benefit costs recognised in other comprehensive income

	2018	2017
	£	£
Return on plan assets (excluding amounts included in net interest cost) - gain/ (loss)	(55,000)	(153,000)
Effects of changes in the demographic and financial assumptions underlying the present value liabilities gain/ (loss)	194,000	(283,000)
Total amount recognised in other comprehensive income - (loss) gain	139,000	(436,000)

Notes to the Financial Statements

For the year ended 31 March 2018

Pension (continued)

	2018	2017
Assets		
	%	%
Equities	78	75
Bonds	10	15
Property	8	5
Cash	4	5
Total assets	100	100

Financial assumptions

	2018	Restated 2017
Discount rate	2.7%	3.6%
Salary growth rate	2.6%	3.7%
Pension growth rate	2.3%	2.2%
Average life expectancies male*	87.5 Yrs	85.5 Yrs
Average life expectancies female*	89.6 Yrs	87.6 Yrs

*2017 adjusted to reflect the correct assumptions per the valuation report

The amount of actuarial gains and losses recognised in the Statement of comprehensive income was £ 139,000 (2017 - £ (436,000)).

The Company expects to contribute £296,000 to its Defined benefit pension scheme in 2019.

Notes to the Financial Statements

For the year ended 31 March 2017

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:

	2018	2017
	£	£
Remuneration paid to key management	203,143	208,982

22. Ultimate controlling party

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

23. 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.

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The Audit Findings for Surrey Choices Limited

Year ended 31 March 2018
September 2018

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Board of directors
Surrey Choices Limited
Fernleigh Day Centre
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August 2018

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Dear Sirs

Audit Findings for Surrey Choices Limited for the year ended 31 March 2018

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) 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), 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.

Richard Hagley

Director
For Grant Thornton UK LLP

Chartered Accountants

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Contents



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Manager

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1. Audit findings	5
2. Independence, ethics, fees and non-audit services	12
3. Communication of audit matters	14

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Status of the audit

Our work is substantially complete subject to the following areas:

- finalisation of manager and director review;
- receipt and review of the signed management letter of representation; and
- updating our post—balance sheet events review to the point of issue of the audit report.

There are currently no matters of which we are aware that would require modification of our audit opinion.

Audit opinion

Our anticipated audit report opinion will be unqualified.

Section 1: Audit findings

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Audit findings – Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Significant risks identified in our Audit Plan

Commentary

1 Improper revenue recognition Auditor commentary

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.
 - We completed the following procedures:
 - documented and considered management's controls over revenue recognition;
 - reviewed the appropriateness of management's revenue recognition policies;
 - substantively tested revenue in respect of the main block contract with Surrey County Council;
 - substantively tested all material non-contract revenue streams; and
 - substantively tested year end debtors.

No issues in relation to improper revenue recognition were noted from our audit procedures completed.

2 Management override of controls Auditor commentary

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities.
 - We completed the following procedures:
 - reviewed accounting estimates, judgments and decisions made by management;
 - performed risk-based testing of journal entries; and
 - reviewed of unusual significant transactions.

No issues in relation to management override of controls were noted from our audit procedures completed.

Audit findings – Reasonably possible risks

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 is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental.

Reasonably possible risks identified in our Audit Plan

Commentary

1

Revenue

- Contract accounting not consistent with terms (Existence / Occurrence)

Auditor commentary

- We completed the following procedures:
 - documented management's arrangements for accounting for contract revenues in respect of the main block contract with Surrey County Council;
 - substantively tested receipts in relation to the main block contract with Surrey County Council; and
 - reviewed the terms and conditions of revenue billed under the main block contract with Surrey County Council to verify whether revenue had been recognised in accordance with the terms of the contract.

No issues in relation to accounting for contract revenues were noted from our audit procedures completed.

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2

Operating expenses

- Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period (Completeness)
- Operating expenses understated or not recorded in correct period (e.g., accruals, prepayments) (Completeness)

Auditor commentary

- We completed the following procedures:
 - documented management's controls over the recording of expenditure and year end accruals;
 - performed cut-off testing to assess whether transactions occurring close to the year end were recorded in the correct accounting period;
 - performed substantive testing of expenditure and year end creditor and accrual balances; and
 - reviewed the appropriateness of the approach adopted by management for estimating year end expenditure accruals.

No issues in relation to operating expenses and creditors were noted from our audit procedures completed.

3

Employee remuneration

- Employee remuneration and benefit obligations and expenses understated (Completeness)




Auditor commentary

- We completed the following procedures:
 - documented management's controls in place in relation to the recording of payroll expenditure;
 - performed a substantive analytical review of the monthly payroll for the year; and
 - reconciled payroll records to the financial statements

Our payroll testing remains in progress and we will reach a conclusion in respect of this risk once this work is completed.



Audit findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Going concern	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We noted from our review of management's going concern assessment that £2.8m of borrowings from Surrey County Council fall due for payment within 12 months of the expected date of signing of our audit report. £2.1m of borrowings will be due for repayment in June 2019 and £0.7m will be due for repayment in August 2019. The Company does not currently have sufficient cash resources to repay these balances and negotiations with Surrey County Council regarding options for the refinancing of this debt are on-going. During the course of the audit, the directors obtained a signed letter of support confirming that Surrey County Council will continue to support Surrey Choices financially for at least 12 months from the date of approval of the statutory financial statements for the year ended 31 March 2018. On the basis of the assurances set out in the letter of support, we have identified no material uncertainty in respect of the Company's future cash flows of the 12 months subsequent to the approval of the accounts in respect of the repayment of borrowings. 	 Green
Revenue recognition	<ul style="list-style-type: none"> Turnover represents amounts chargeable in respect of the provision of social care services, exclusive of VAT and is recognised when the services are rendered. 	<ul style="list-style-type: none"> We have reviewed the Company's revenue recognition policies and have verified that they are reasonable and compliant with the requirements of FRS 102. 	 Green
Other judgements and estimates	<ul style="list-style-type: none"> Other significant estimates and areas of judgement in the financial statements include: <ul style="list-style-type: none"> expenditure accruals; bad debt provision; deferred tax asset; deferred income; and valuation of the net pension liability. 	<ul style="list-style-type: none"> We are satisfied regarding the appropriateness of significant accounting judgements and estimates reflected within the accounts. We note that the directors have made a judgement not to recognise any deferred tax asset because management are unable to demonstrate the availability of sufficient future taxable profits to utilise the asset against. While Surrey Choices achieved a taxable profit for the year ended 31 March 2018, management do not consider profits to be likely going forward because in on-going contract negotiations with Surrey County Council, the Council is seeking to reduce the value of the contract with Surrey Choices to eliminate profits going forward. We are satisfied that this is a reasonable judgement for management to make. 	 Green

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Audit findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Other critical policies	<ul style="list-style-type: none">We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102.	<ul style="list-style-type: none">We have reviewed the Company's other critical accounting policies and do not have any comments to make.	<div><div></div><div>Green</div></div>

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient



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 in our Audit Plan. We have not been made aware of any incidents of fraud in the year 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"> 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 with laws and regulations.
4	Written representations	<ul style="list-style-type: none"> Representations will be requested from management in respect of the significant assumptions used in making accounting estimates.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request HSBC in respect of the Company's closing bank balance as at 31 March 2018. This permission was granted and the requested letter was received.
6	Disclosures	<ul style="list-style-type: none"> We identified no significant disclosure errors or omissions in the financial statements.
7	Internal controls	<ul style="list-style-type: none"> During our audit we did not note any significant deficiencies in internal controls to report.

Adjusted misstatements – disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Area	Detail	Adjusted?
Going concern	<ul style="list-style-type: none">In Note 1.2 'Going concern', additional disclosure should be provided of the letter of support from Surrey County Council that the directors have placed reliance on in formulating their going concern assessment.	✓
Financial instruments	<ul style="list-style-type: none">In Note 16 'Financial instruments', the bad debt provision of £104,297 was not been included within the carrying value of financial asset debtors reported, however the provision forms party of management's process for measuring the carrying value of debtors and should be included in the debtors figure disclosed within this note.	✓
Financial instruments	<ul style="list-style-type: none">In Note 16, 'Financial instruments', taxation and social security creditors of £542,882 and deferred income of £1,052,016 were incorrectly included in the "other creditors" financial liabilities figure reported in this note, despite not meeting the definition of financial liabilities.	✓

Section 2: Independence, ethics, fees and non-audit services

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Independence, ethics, fees and non-audit services

The table below sets out the total fees for audit and non-audit services charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

	Fees £	Threat identified	Safeguards
Audit of company	£17,000	None noted	N/A
Total audit	£17,000		
Certification of the teachers pensions return	£3,500	Self-interest threat (because this is a recurring fee)	The fee for this work is low in comparison to the total fee for the audit and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Total audit-related services	£3,500		
Total fees	£20,500		

No non-audit services have been provided to the Company by Grant Thornton UK LLP.
The audit fee was not provided on a contingent fee basis.

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Section 3: Communication of audit matters

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. 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 including significant risks and Key Audit Matters	•	
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	•	•
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), 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 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, findings 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 an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton at a glance

Grant Thornton International Ltd

- Fee income \$4.8 billion
- Over 130 countries
- Over 700 locations
- Over 47,000 people
- Global methodologies, strategy, global brand, global values – consistent global service

Page 128



FTSE 100 are
non-audit clients

56%



People
worldwide

47,000



Independent
advisor of AiM

No.1

UK offices (+
Cayman and British
Virgin Islands)

26+



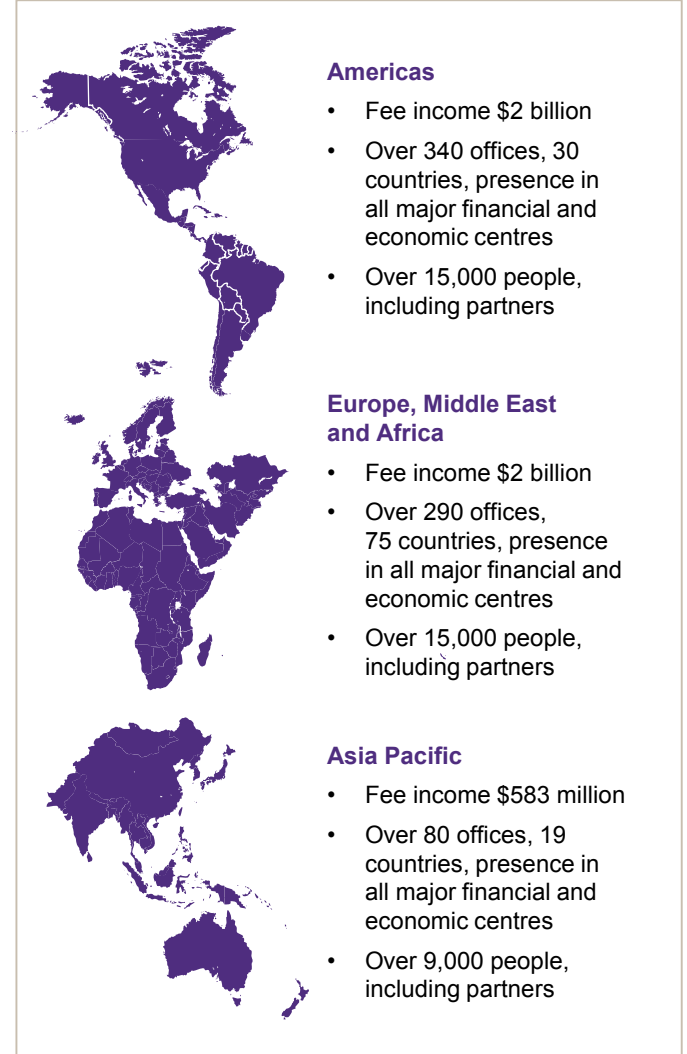
Largest auditor, UK's
top privately-held
companies

6th



Member firms of
Grant Thornton
International Ltd

140+





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Report and financial statements

Year ended 31 March 2018

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Strategic report

for the year ended 31 March 2018

The directors present their Strategic report with the consolidated and individual financial statements for the year ended 31 March 2018.

Group highlights

- Property portfolio of £244.6m (31 March 2017: £155.4m)
- Property acquisitions totalling £90.2m in 2017/18 (2016/17: £152.6m)
- Gross profit of £11.2m for 2017/18 (2016/17: £5.2m)
- Profit before tax and fair value adjustments of £2.1m for 2017/18 (2016/17: £1.1m)
- Dividend proposed of £1.6m for the year to 31 March 2018 (2016/17: £0.75m)



Business Model

Our strategy is to build a diversified property portfolio, let to reliable tenants in good locations, to deliver income returns over the long term to our shareholder (Surrey County Council) for the benefit of Surrey residents.

Debt finance is secured solely from Surrey County Council and during the financial year 2017/18 Halsey Garton paid £9.0m in interest payments to the council (2016/17: £3.9m).

Financial summary

Over the last three years Halsey Garton has worked at pace to build a property portfolio now valued at £244.6m. The group made a £1.2m profit before tax this year and a gross profit of £11.2m, up 114% from last year. The increase in gross profit was achieved because of the significant acquisitions made during 2017/18 and due to the full year impact of rental income from acquisitions made in the previous financial year. Based on the performance of the group in 2017/18 directors are recommending a dividend of £1.6m, which is up 113% from 2016/17.

The change in values of our investment properties is a key component of the group's profit before tax. This year there was a much smaller net deficit on revaluation of investment properties recorded of £0.9m, in comparison to £7.9m from the prior year. Further information on the annual property valuation is provided below.

As at 31st March 2018 £14.0m rental income was due to the group over the financial year 2018/19, under non-cancellable leases, and this is expected to grow with the portfolio.

The total capital of the group consists of shareholders' equity and net debt. Over the year our debt increased by £60.2m in line with the increase in the size of the portfolio. Our loan

to value (LTV) ratio decreased from 76% to 73%, principally as a result of increases in the underlying values of our properties in addition to a lower LTV ratio for the Malvern purchase made during 2017/18.

Principal business risks

Property investment is subject to inherent market risks which can be mitigated to some degree by the creation of a balanced portfolio of investments. However the risk of tenant failure is increasing and will continue to do so if the general economic conditions in the UK over the longer term are negatively impacted by Brexit or other factors. Investments are evaluated carefully with due regard to risk and exposure to potential tenant voids and are managed to avoid, wherever possible, over-reliance upon single tenants or types of tenants in terms of their impact as a percentage of the total portfolio.

Tenant voids are currently 4.4% measured in terms of an estimate of market rent receivable as a percentage of the total open market rental value of the portfolio.

Financial risk management

Management reviews the group's exposure to price risk, credit risk, liquidity risk and cash flow risk. Our overall financial risk management strategy seeks to minimise the potential adverse effects of these on our financial performance. Available funds are closely monitored throughout the year. Each new investment is financed by a combination of equity and debt provided by the council, on a fixed rate of interest. There is also a short term loan facility available although to date that has not been required. Any cash investments are made via Surrey County Council in accordance with its Treasury management strategy, which prescribes investment limits according to the credit rating of the counterparty.

The overall credit risk of trade receivables is considered to be low – a credit report is obtained from an independent rating agency for each tenant prior to acquisition or upon agreement of a new lease. Tenants currently in administration represent just 0.6% of the current rent roll and tenants in known financial difficulties a further 2.1%.

Property review

As at 31 March 2018:

- 14 properties, comprising 1,217,000 square feet of space
- 45 commercial tenants providing a contractual annual rent roll of £14.0m
- Weighted average unexpired lease term (WAULT) of 9.7 years to lease breaks/expiry
- Future income stream from tenants under lease agreements of £164.4m.

Property valuation

The fair value of the group's investment property is measured annually at each reporting date with the changes in value reported in the consolidated profit and loss account as an unrealised gain or loss. The revaluation exercise completed as at 31 March 2018 has resulted in an **overall increase in underlying values of £3.5m** compared to the value of the assets last year or upon purchase for the two assets acquired this year. This increase is primarily the result of improving industrial asset values.

An unrealised loss is an accounting adjustment that does not impact upon Halsey Garton's ability to provide a dividend since it is something that has not happened nor will happen unless the group decides to sell the asset. Halsey Garton is free to determine when to sell an asset

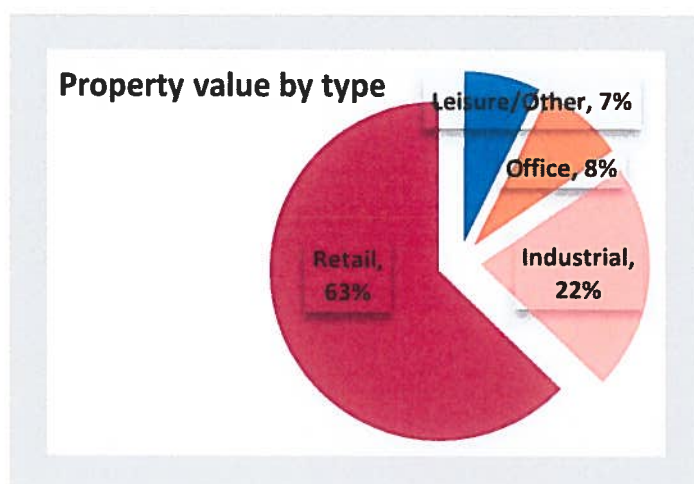
and therefore it is unlikely that there will be a realised loss since assets will generally only be sold when it is beneficial to do so. Similarly an unrealised gain cannot be used to provide a bigger dividend than that permissible from the underlying profits generated by the group.

As we are required to ensure that the balance sheet value is as per the valuation, this also requires the write-down of any transaction costs associated with the purchase. Transaction costs include stamp duty of 5% and other fees and hence it is unlikely that increases in value will offset the costs of purchase in the early years. This means that, as expected, a write-off of purchase transaction costs incurred during the year resulting in a net deficit upon revaluation of £0.9m reported in the group's accounts for the year (2016/17: £7.9m).

All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors, known as a 'red book' valuation.

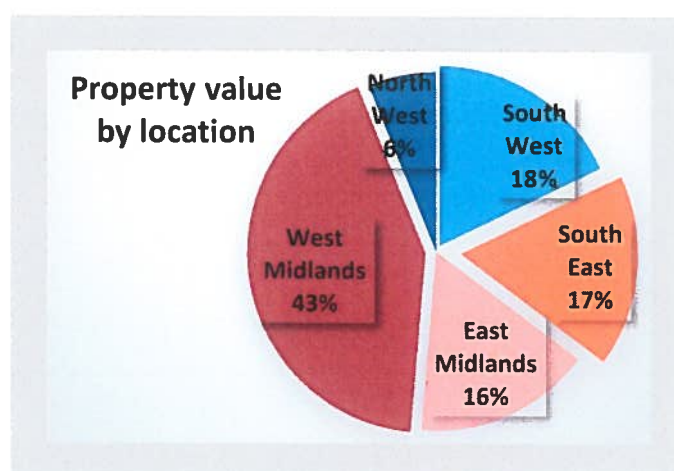
Portfolio overview

The Halsey Garton group property portfolio sits within the investment portfolio of SCC as a whole, which seeks to build a diversified portfolio of assets in order to manage risks and secure long term income returns for the council. This year we have significantly grown our property portfolio through two acquisitions totalling £90.2m. As at 31 March 2018 our portfolio consisted of 14 properties across England, as detailed below.



The Halsey Garton group portfolio is currently heavily weighted towards the retail sector, and for SCC as a whole the portfolio is under weighted in the industrial sector. Planned acquisitions will redress this balance.

Properties are geographically spread across England – new acquisitions will seek to maintain such a spread across the SCC investment portfolio as a whole.



Portfolio detail

Property	Type	Description	Acquisition Date	Asset Value £000
Hampton Park West, Melksham	Industrial	Manufacturing and warehouse facility	Nov-15	11,300
Hawkley Drive, Bristol	Industrial	Manufacturing and warehouse facility	Apr-16	12,600
Washford Mills, Redditch	Retail	Retail warehouse units	May-16	8,200
Manton Wood, Worksop	Industrial	Distribution warehouse	May-16	9,000
Aztec West, Bristol	Office	Single tenanted office	Jun-16	19,840
Wiggs House, Salford	Industrial	Distribution warehouse	Jul-16	8,500
Willowbrook, Loughborough	Retail	Retail units (out of town location)	Nov-16	18,850
Birmingham Road (Travelodge), Stratford Upon Avon	Leisure / Retail	Hotel and retail units	Nov-16	9,200
Friar Street (Vue Cinema), Worcester	Leisure / Retail	Cinema and retail / restaurant units	Nov-16	11,800
Oakgrove Retail Park, Milton Keynes	Retail	Retail units (out of town location)	Dec-16	27,350
Stratham Street, Macclesfield	Retail	Retail warehouse unit	Dec-16	6,635
High Street, Winchester	Retail	High Street department store	Mar-17	15,000
Malvern Shopping Park	Retail	Retail units (out of town location)	Sep-17	74,650
Blenheim Park, Nottingham	Industrial	Distribution warehouse	Mar-18	11,700
Total Asset Value				244,625

Key performance indicators (KPIs)

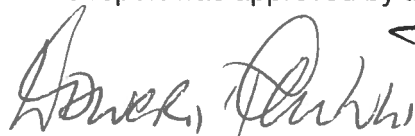
Objective	KPI	Performance 2017/18	Performance 2016/17
Maximise income returns from our property portfolio	Underlying revenue profit (before tax and fair value adjustments)	Profit of £2.1m achieved, outperforming target by £0.5m	Profit of £1.1m achieved, outperforming target by £0.3m
	Tenant voids percentage (based on open market rental value)	Tenant voids at 4.4% as at 31 March 2018, outperforming target by 2.7%	Tenant voids at 0.0% as at 31 March 2017, outperforming target by 6.9%
Secure long term income stream	WAULT to lease breaks/expiries	9.7 years, outperforming target by 1.1 years	11.2 years, outperforming target by 2.1 years

Business conduct

The Halsey Garton group operates in accordance with its shareholder's values and policies, including its responsible investment policy. This policy ensures that the decision making process for all new investments involves consideration of a range of environmental, social and governance factors. The group seeks to establish strong business relationships with its advisors and suppliers and to pay them within agreed payment terms.

Halsey Garton reviews its health and safety obligations in relation to its property portfolio on a regular basis. As part of an agreed approach with our managing agents, we have undertaken a detailed health and safety risk assessment of all our properties with a view to identifying any remedial actions required. Following the Grenfell Tower fire tragedy we took the opportunity to further remind both Tenants and the Halsey Garton team of the health and safety responsibilities of all parties. We await the outcome of the Grenfell Tower public inquiry and any recommendations from the Department for Communities and Local Government which might impact upon our property portfolio.

This report was approved by the Board on 20.07.18 and signed on its behalf by:



Edward Hawkins, Director



John Stebbings, Director



Susan Smyth, Director

Halsey Garton Property Ltd

Registered and domiciled in England and Wales

Registration number: 09089937

Registered office: County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN

Directors' report

for the year ended 31 March 2018

The directors present their report with the consolidated and individual financial statements for the year ended 31 March 2018.

Principal activities

The principal activities of the group in the period under review were investment and property rental.

Directors

The directors shown below have held office during the whole of the year from 1 April 2017 to 31 March 2018:

S Smyth
J Stebbings

The following director was appointed on 5 February 2018:

E Hawkins

Directors' indemnities

The council has agreed to indemnify each Director against any liability incurred in relation to acts or omissions arising in the course of their ordinary duties, assuming that they acted reasonably and in good faith.

Political and charitable donations

None.

Business structure

Halsey Garton group comprises Halsey Garton Property Ltd and three property subsidiary companies as set out in the diagram below. Halsey Garton Residential Ltd and Halsey Garton Property Developments Ltd are not yet active or trading.



Additional disclosures

The following directors' report disclosures have been made elsewhere in this report and financial statements:

- Recommended dividend (Strategic report page 3)
- Financial risk management policies and objectives (Strategic report page 4)
- Information on exposure to price risk, credit risk, liquidity risk and cashflow risk (Strategic report page 4)
- Future developments in the business of the company (Strategic report pages 3-7)
- Post balance sheet events (financial statements page 24 and page 35).

Consolidated financial statements

The consolidated financial statements and supporting notes on pages 14 to 24 include the results for all Halsey Garton group companies as listed above.

Company financial statements

The company financial statements and supporting notes on pages 25 to 35 include the results for Halsey Garton Property Ltd only.

Statement of directors' responsibilities

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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.

Provision of information to auditor

The directors confirm that:

Halsey Garton Property Ltd

- so far as that each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

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

This report was approved by the Board on 20.07.18 and signed on its behalf by:


Edward Hawkins, Director


John Stebbings, Director


Susan Smyth, Director

Halsey Garton Property Ltd

Registered and domiciled in England and Wales

Registration number: 09089937

Registered office: County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN

Independent auditor's report to the members of Halsey Garton Property Limited

Opinion

We have audited the financial statements of Halsey Garton Property Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cashflows, the company profit and loss account, the company balance sheet, the company statement of changes in equity, the company statement of cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's and parent company's profit/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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our

opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

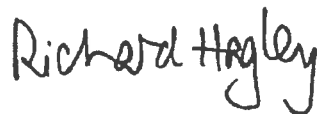
In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Richard Hagley BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

20 July 2018

Consolidated profit and loss account

for year ended 31 March 2018

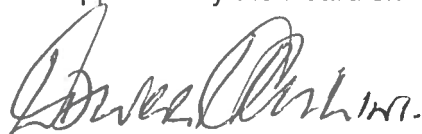
	Note	2018 £	2017 £
Turnover	7	12,073,701	5,536,149
Cost of sales		(885,955)	(308,913)
Gross profit		11,187,746	5,227,236
Administrative expenses		(285,795)	(216,185)
Net deficit on revaluation of investment properties	14	(921,588)	(7,872,041)
Operating profit/(loss)		9,980,363	(2,860,990)
Interest receivable and similar income	10	186,022	963
Interest payable and similar charges	11	(8,979,121)	(3,940,780)
Profit/(loss) on ordinary activities before taxation		1,187,264	(6,800,807)
Tax on profit on ordinary activities	12	(401,198)	(295,531)
Profit/(loss) for the financial year		786,066	(7,096,338)

Consolidated balance sheet

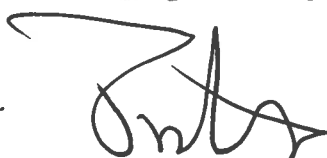
as at 31 March 2018

	Note	2018 £	2017 £
Fixed assets			
Investment property	14	244,625,000	155,375,000
Total fixed assets		244,625,000	155,375,000
Current assets			
Debtors due after one year	15	1,309,896	682,723
Debtors due within one year	15	461,291	181,137
Investments		0	0
Cash at bank and in hand		3,240,527	1,689,574
Total current assets		5,011,714	2,553,434
Creditors: amounts falling due within one year	16	(8,645,328)	(2,564,114)
Net current (liabilities)/assets		(3,633,614)	(10,680)
Total assets less current liabilities		240,991,386	155,364,320
Creditors: amounts falling due after one year	17	(178,955,432)	(118,708,432)
Net assets		62,035,954	36,655,888
Capital and Reserves			
Share capital	19	69,426,000	44,082,000
Fair value reserve	20	(9,152,248)	(8,230,660)
Profit and loss account		1,762,202	804,548
Total equity attributable to owners of the parent company		62,035,954	36,655,888

Approved by the Board on 20.07.18 and signed on its behalf by:



Edward Hawkins, Director



John Stebbings, Director



Susan Smyth, Director

Consolidated statement of changes in equity

for the year ended 31 March 2018

	Note	Share capital £	Profit and loss account £	Fair value reserve £	Total £
Balance at 31 March 2016		2,543,000	(53,929)	(275,845)	2,213,226
(Loss) for the year and total comprehensive income		0	(7,096,338)	0	(7,096,338)
Transfer to fair value reserve	20	0	7,954,815	(7,954,815)	0
Issue of shares		41,539,000	0	0	41,539,000
Balance at 31 March 2017		44,082,000	804,548	(8,230,660)	36,655,888
Profit for the year and total comprehensive income		0	786,066	0	786,066
Transfer to fair value reserve	20	0	921,588	(921,588)	0
Issue of shares		25,344,000	0	0	25,344,000
Dividends paid	13	0	(750,000)	0	(750,000)
Balance at 31 March 2018		69,426,000	1,762,202	(9,152,248)	62,035,954

Consolidated statement of cashflows

for the year ended 31 March 2018

	Note	2018 £	2017 £
Net cash inflow from operating activities	9	11,333,394	6,574,597
Taxation paid		(146,624)	0
Net cash generated from operating activities		11,186,770	6,574,597
Investing activities:			
Interest received		9	1,036
Investment property acquisitions		(85,497,705)	(152,577,264)
Movement in short term investments		0	650,000
Net cash (outflow) from investing activities		(85,497,696)	(151,926,228)
Financing activities:			
Interest paid		(8,979,121)	(3,940,778)
Dividends paid		(750,000)	0
Issue of ordinary share capital		25,344,000	41,539,000
New long term loans		60,247,000	108,843,000
Net cash inflow from financing activities		75,861,879	146,441,222
Net increase in cash and cash equivalents		1,550,953	1,089,591
Cash and cash equivalents at beginning of the year		1,689,574	599,983
Cash and cash equivalents at the end of the year		3,240,527	1,689,574

Notes to the consolidated financial statements

for the year ended 31 March 2018

1. Company information

Halsey Garton group comprises Halsey Garton Property Ltd and three property subsidiary companies as set out on page eight of this report. All four companies are private companies, limited by shares, and domiciled in England and Wales. The registered offices are County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN.

2. Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard (FRS) 102 and with the Companies Act 2006. There were no material departures from this standard.

The dormant subsidiaries Halsey Garton Residential Ltd and Halsey Garton Property Developments Ltd are exempt from the requirement to prepare and file accounts under sections 394(A) and 448(A) of the Companies Act 2006.

The financial statements have been prepared on a historical cost basis except for the modification to a fair value basis for investment properties as specified below.

The Financial statements are presented in sterling (£).

3. Going concern

After reviewing the group's forecast and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. As at 31st March 2018 there was an overall net current liability of £3.6m recorded in the accounts, however £4.7m relates to a capital creditor for the final stage of the Nottingham acquisition which was financed by £4.6m loan and equity received in April 2018 plus available cash. A further £2.5m is deferred income mainly relating to rent received for the period 1st April to 23rd June 2018. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

4. Accounting policies

4.1 Basis of consolidation

The consolidated financial statements present the results of Halsey Garton Property Ltd and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

4.2 Turnover

The turnover shown in the profit and loss account represents rents and income from other property services earned during the period, exclusive of VAT.

4.3 Recognition of income and expenditure

Revenue (income) from rents and other property related services, is recognised when the property or service is provided, rather than when payments are received.

Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

4.4 Investment properties

Investment property is initially measured at cost, including transaction costs. Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in profit or loss and transferred to the fair value reserve.

4.5 Loans between group companies

Loans from Surrey County Council are measured at amortised cost.

4.6 Leased assets – lessor

Rent received under operating leases is credited to profit and loss on a straight line basis over the term of the lease. Incentives for the agreement of a new or renewed operating lease are recognised as a reduction in the rental income over the lease term, irrespective of the incentive's nature or form, or the timing of any payments.

4.7 Current Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted by the balance sheet date.

4.8 Deferred Taxation

The tax expense recorded in the profit and loss account represents the sum of tax currently payable and deferred tax. Deferred tax is the tax expected to be payable or recoverable based on timing differences between the company's net profits recorded in the financial statements and taxable profits for tax computation purposes.

5. Judgements in applying accounting policies and key sources of uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determined if leases entered into by the company are operating leases or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- Investment properties are professionally valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can ultimately only be reliably tested in the market itself.
- That there are unlikely to be sufficient capital gains in the foreseeable future to enable the utilisation of a potential deferred tax asset on property revaluations. This judgement has been made in light of prevailing property market conditions, the continued expansion of the property portfolio and our experience that significant capital

transaction costs on purchase are not offset by increases in underlying property values in the early years after purchase.

6. Average number of persons employed

During the year the group did not employ any persons directly.

7. Turnover

Turnover, analysed by category was as follows:

	2018	2017
	£	£
Rents received from investment properties	11,495,893	5,335,423
Landlord services – service charges	351,092	92,606
Landlord services – property insurance	226,716	108,120
Total	12,073,701	5,536,149

8. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

	2018	2017
	£	£
Audit fees	12,450	12,793
Tax compliance services	7,115	6,850

9. Reconciliation of operating profit

Reconciliation of operating loss to cash utilised in operations.

	2018	2017
	£	£
Profit/(loss) on ordinary activities before taxation	1,187,264	(6,800,807)
Interest payable	8,979,121	3,940,780
Interest receivable	(186,022)	(963)
Unrealised loss on revaluation of investments	921,588	7,872,041
Net decrease in working capital	1,058,616	2,119,447
Net (increase) in lease incentives	(627,173)	(555,901)
Net cash inflow from operating activities	11,333,394	6,574,597

10. Interest receivable and similar income

During 2017/18 £186,013 interest was receivable on advanced payments made to the developer of Blenheim Park, Nottingham as part of a development funding agreement.

	2018 £	2017 £
Interest on advanced payments	186,013	0
Bank interest	9	963
Total	186,022	963

11. Interest payable and similar charges

Interest is payable on intragroup loans between Surrey County Council and Halsey Garton Property Ltd.

	2018 £	2017 £
Interest on loan	8,978,871	3,940,578
Bank charges	250	202
Total	8,979,121	3,940,780

12. Taxation

The tax charge on the profit on ordinary activities for this period was as follows:

	2018 £	2017 £
UK Corporation tax	295,552	138,602
Deferred tax	105,646	156,929
Tax on profit on ordinary activities	401,198	295,531
Factors affecting the tax charge/(credit):	2018	2017
	£	£
Profit/(loss) on ordinary activities before taxation	1,187,264	(6,800,807)
Rate of tax for period	19%	20%
Profit/(loss) on ordinary activities before taxation multiplied by the rate of tax for period	225,580	(1,360,162)
Expenses not deductible for tax purposes	197,047	1,600,586
Chargeable gains/(losses)	(458,873)	(1,655,683)
Adjustments in respect of prior periods	(48,700)	76,166
Adjust closing deferred tax to average rate	192,950	235,617
Adjust opening deferred tax to average rate	(152,898)	0
Deferred tax not recognised	446,092	1,399,007
Tax on profit on ordinary activities	401,198	295,531

Expenses not deductible for tax purposes comprise the net deficit from changes in the fair value of investments plus revenue expenses relating to the acquisition of properties.

Halsey Garton Property Ltd

Factors that may affect future tax charges: Halsey Garton Property Ltd has tax adjusted non-trade losses of £41,622 (2017: £41,622) available for carry forward against future non-trading profits.

13. Dividends

	2018 £	2017 £
Paid during the year	750,000	0
Declared post year end	1,600,000	750,000

14. Fixed assets – investment properties

The group's investment properties are valued annually on 31 March at fair value, determined by an independent, professionally qualified valuer, GVA. The valuations are undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. Details on the assumptions made and the key sources of estimation uncertainty are given in note 5.

The net deficit on revaluation of investment property arising of £921,588 as at 31 March 2018 has been debited to the profit and loss for the year and transferred to the fair value reserve. The net deficit comprises an increase in the underlying values of properties of £3,456,542 offset by the writing down of property purchase transaction costs of £4,378,130.

	2018 £	2017 £
Fair value at 1 April 2017	155,375,000	10,691,121
Additions	90,171,588	152,555,920
Disposals	0	0
Fair value adjustments	(921,588)	(7,872,041)
Fair value at 31 March 2018	244,625,000	155,375,000

15. Debtors

	2018 £	2017 £
<i>Debtors due after more than one year</i>		
Accrued income – unamortised lease incentive	1,309,896	682,723
Sub-Total	1,309,896	682,723
<i>Debtors due within one year</i>		
Amounts owed by parent entity	0	0
Deferred tax asset	0	0
Trade debtors	274,368	180,362
VAT	0	0
Other debtors	186,923	775
Sub-Total	461,291	181,137
Total	1,771,187	863,860

All amounts shown fall due for payment within one year except for the unamortised lease incentive which is due in accordance with the terms of the lease.

16. Creditors: amounts falling due within one year

	2018 £	2017 £
Amounts owed to parent entity	31,734	26,780
Corporation tax	296,118	147,190
Deferred tax provision	177,820	72,174
Deferred Income	2,526,027	1,743,066
Trade Creditors	59,866	29,002
VAT	726,089	420,450
Other creditors	4,827,674	125,452
Total	8,645,328	2,564,114

Other creditors falling due within one year includes £4,679,758 related to Blenheim Park, Nottingham which completed on 29 March 2018.

17. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Amounts owed to parent entity	178,955,432	118,708,432
Total	178,955,432	118,708,432

Intragroup loans totalling £178,955,432 have been provided by Surrey County Council to Halsey Garton Property Ltd. These are maturity loans at interest rates ranging from 5.5% to 6.6% and all are due to be repaid in full, ten years from the original loan draw down. The carrying amount as at 31 March 2018 is included at amortised cost.

18. Deferred tax provision

	2018 £	2017 £
Opening balance at 1 April 2017	72,174	(84,755)
Accelerated capital allowances	70,125	79,250
Deferred tax asset for unrelieved tax losses	0	(7,076)
Adjustments in respect of prior periods	35,521	84,755
Deferred tax asset for loss on revaluation	0	0
Closing balance at 31 March 2018	177,820	72,174

There is a potential deferred tax asset on property revaluations of £1,817,901 which has not been recognised in the accounts due to uncertainty about the availability of sufficient capital profits in the foreseeable future to utilise the losses against. This is because the group is continuing to grow its property portfolio, thereby incurring significant transaction costs and its strategy is to hold properties for long term income returns and not capital gains. It is also unlikely that any property will be sold until such time as it is beneficial to do so.

19. Called up share capital

Authorised, allotted and fully paid:

	2018 £	2017 £
1 founders' shares of £1,000 each	1,000	1,000
69,425 ordinary shares of £1,000 each	69,425,000	44,081,000
Total	<u>69,426,000</u>	<u>44,082,000</u>

20. Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment property assets until they are sold or an asset is impaired. A potential deferred tax asset on revaluations of £1,817,901 has not been recognised in 2018 – see also note 18 above. The reserve is used to distinguish unrealised profits/(losses) from realised profits/(losses) which are held in the profit and loss account.

	Fair value reserve 2018 £	2017 £
Reserve at 1 April 2017	(8,230,660)	(275,845)
Fair value adjustments (Note 14)	(921,588)	(7,872,041)
Deferred tax asset for loss on revaluation	0	(82,774)
Reserve at 31 March 2018	<u>(9,152,248)</u>	<u>(8,230,660)</u>

21. Leases

The minimum lease payments due to Halsey Garton group under non-cancellable leases in future years are:

	2018 £	2017 £
Not later than one year	13,989,047	8,890,971
Later than one year but not later than five years	53,785,888	37,046,787
Later than five years	96,653,928	75,447,120
Total	<u>164,428,863</u>	<u>121,384,878</u>

All leases entered into by the group are considered to be operating leases.

22. Related party disclosures

Halsey Garton group is 100% owned by Surrey County Council (SCC), the ultimate controlling party. SCC draws up consolidated financial statements for the group and its principal place of business is County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN. The only related party transactions were intra-group transactions between Halsey Garton and SCC and these have not been disclosed in line with section 33.1A of FRS 102.

23. Post balance sheet events

No material non-adjusting post balance sheet events have occurred.

Company profit and loss account

for year ended 31 March 2018

	Note	2018 £	2017 £
Turnover		0	0
Cost of sales		0	0
Gross profit		0	0
Administrative expenses		(52,143)	(39,740)
Other operating income		0	0
Net deficit on revaluation of investments	13	(921,588)	(7,872,041)
Operating (loss)		(973,731)	(7,911,781)
Investment income	12	850,000	0
Interest receivable and similar income	9	8,969,365	3,931,072
Interest payable and similar charges	10	(8,979,008)	(3,940,671)
(Loss) on ordinary activities before taxation		(133,374)	(7,921,380)
Tax on loss on ordinary activities	11	0	(72,644)
(Loss) for the financial year		(133,374)	(7,994,024)

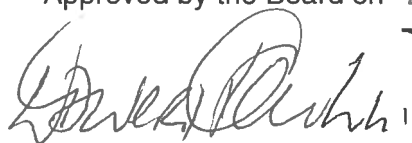
Company balance sheet

as at 31 March 2018

Company number: 09089937

	Note	2018 £	2017 £
Fixed assets			
Investments	13	60,273,754	35,851,342
Total fixed assets		60,273,754	35,851,342
Current assets			
Debtors due after more than one year	14	178,797,000	118,550,000
Debtors due within one year	14	9,007	8,573
Cash at bank and in hand		113,622	76,802
Total current assets		178,919,629	118,635,375
Creditors: amounts falling due within one year	15	(9,870)	(10,830)
Net current assets		178,909,759	118,624,545
Total assets less current liabilities		239,183,513	154,475,887
Creditors: amounts falling due after one year	16	(178,955,432)	(118,708,432)
Net assets		60,228,081	35,767,455
Capital and Reserves			
Share capital	18	69,426,000	44,082,000
Fair value reserve	19	(9,152,248)	(8,230,660)
Profit and loss account		(45,671)	(83,885)
Total equity attributable to owners of the parent company		60,228,081	35,767,455

Approved by the Board on 20.07.18 and signed on its behalf by:



Edward Hawkins, Director



John Stebbings, Director



Susan Smyth, Director

Company statement of changes in equity

for the year ended 31 March 2018

	Note	Share capital £	Profit and loss account £	Fair value reserve £	Total equity £
Balance at 31 March 2016		2,543,000	(44,676)	(275,845)	2,222,479
(Loss) for the year and total comprehensive income		0	(7,994,024)	0	(7,994,024)
Transfer to fair value reserve	19	0	7,954,815	(7,954,815)	0
Issue of shares		41,539,000	0	0	41,539,000
Balance at 31 March 2017		44,082,000	(83,885)	(8,230,660)	35,767,455
(Loss) for the year and total comprehensive income		0	(133,374)	0	(133,374)
Transfer to fair value reserve	19	0	921,588	(921,588)	0
Issue of shares		25,344,000	0	0	25,344,000
Dividends paid	12	0	(750,000)	0	(750,000)
Balance at 31 March 2018		69,426,000	(45,671)	(9,152,248)	60,228,081

Company statement of cashflows

for the year ended 31 March 2018

	Note	2018 £	2017 £
Net cash (outflow) from operating activities	8	(53,537)	(37,043)
Investing activities:			
Interest received		8,969,365	3,931,072
Dividends received		850,000	0
Purchase of investments		(25,344,000)	(41,539,000)
Issue of new long term loans		(60,247,000)	(108,843,000)
Net cash (outflow) from investing activities		(75,771,635)	(146,450,928)
Financing activities:			
Interest paid		(8,979,008)	(3,940,671)
Dividends paid		(750,000)	0
Issue of ordinary share capital		25,344,000	41,539,000
New long term loans		60,247,000	108,843,000
Net cash inflow from financing activities		75,861,992	146,441,329
Net (decrease)/increase in cash and cash equivalents		36,820	(46,642)
Cash and cash equivalents at beginning of the year		76,802	123,444
Cash and cash equivalents at the end of the year		113,622	76,802

Notes to the company financial statements

for the year ended 31 March 2018

1. Company information

Halsey Garton Property Ltd is a private company, limited by shares, domiciled in England and Wales, registration number 09089937. The registered office is County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN.

2. Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard (FRS) 102 and with the Companies Act 2006. There were no material departures from this standard.

The financial statements have been prepared on a historical cost basis except for the modification to a fair value basis for investments as specified below.

The Financial statements are presented in sterling (£).

3. Going concern

After reviewing the company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

4. Accounting policies

4.1 Recognition of income and expenditure

Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

4.2 Investments in subsidiaries

Investments in shares of subsidiaries are initially measured at cost, including applicable transaction costs. Investments are carried at fair value where they can be measured reliably, otherwise they are included at cost less impairment. Changes in fair value are recognised in profit or loss and transferred to the fair value reserve.

4.3 Loans between group companies

Loans between group companies are measured at amortised cost.

4.4 Current Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted by the balance sheet date.

4.5 Deferred Taxation

The tax expense recorded in the profit and loss account represents the sum of tax currently payable and deferred tax. Deferred tax is the tax expected to be payable or recoverable based on timing differences between the company's net profits recorded in the financial statements and taxable profits for tax computation purposes.

5. Judgements in applying accounting policies and key sources of uncertainty

In preparing these financial statements, the directors have made the following judgements:

- In determining the value of investments, the company applies the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstance of the investment drives the valuation methodology.
- Investments in subsidiaries (Halsey Garton Property Investments Ltd) are carried at fair value and this has been determined with reference to the underlying investment property asset held by the subsidiary. Investment property held by Halsey Garton Property Investments Ltd is professionally valued every year using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can ultimately only be reliably tested in the market itself.
- That there are unlikely to be sufficient capital gains in the foreseeable future to enable the utilisation of a potential deferred tax asset on investment revaluations. This judgement has been made in light of prevailing property market conditions, the continued expansion of the property portfolio and our experience that significant capital transaction costs on purchase are not offset by increases in underlying property values in the early years after purchase.

6. Average number of persons employed

During the year Halsey Garton Property Ltd did not employ any persons directly.

7. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

	2018	2017
	£	£
Audit fees	3,735	3,860
Tax compliance services	2,065	2,000

8. Reconciliation of operating loss

Reconciliation of operating loss to cash utilised in operations.

	2018 £	2017 £
(Loss) on ordinary activities before taxation	<u>(133,374)</u>	<u>(7,921,380)</u>
Interest payable	8,979,008	3,940,671
Interest receivable	(8,969,365)	(3,931,072)
Dividends received	(850,000)	0
Unrealised loss on revaluation of investments	921,588	7,872,041
Net (increase)/decrease in working capital	(1,394)	2,697
Net cash (outflow) from operating activities	<u>(53,537)</u>	<u>(37,043)</u>

9. Interest receivable and similar income

Interest is receivable on long term intragroup loans between Halsey Garton Property Ltd and Halsey Garton Property Investments Limited.

	2018 £	2017 £
Interest on loans	<u>8,969,365</u>	<u>3,931,072</u>
Total	<u>8,969,365</u>	<u>3,931,072</u>

10. Interest payable and similar charges

Interest is payable on long term intragroup loans between Surrey County Council and Halsey Garton Property Limited.

	2018 £	2017 £
Interest on loans	8,978,871	3,940,578
Bank charges	137	93
Total	<u>8,979,008</u>	<u>3,940,671</u>

11. Taxation

The tax charge/(credit) on the loss on ordinary activities for this period was as follows:

	2018 £	2017 £
UK Corporation tax	0	(3,054)
Deferred tax	0	75,698
Tax on loss on ordinary activities	<u>0</u>	<u>72,644</u>

Halsey Garton Property Ltd

	2018	2017
Factors affecting the tax charge/(credit):		
	£	£
(Loss) on ordinary activities before taxation	(133,374)	(7,921,380)
Rate of tax for period	19%	20%
(Loss) on ordinary activities before taxation multiplied by the rate of tax for period	(25,341)	(1,584,276)
Expenses not deductible for tax purposes	175,103	1,574,407
Exempt ABGH distributions	(161,500)	0
Chargeable gains/(losses)	(458,873)	(1,655,683)
Adjustment in respect of prior periods	0	79,720
Group relief surrendered	11,739	9,868
Adjust closing deferred tax to average rate	214,703	249,601
Adjust opening deferred tax to average rate	(166,401)	0
Deferred tax not recognised	410,570	1,399,007
Tax on loss on ordinary activities	0	72,644

Expenses not deductible for tax purposes comprise the net deficit from changes in the fair value of investments.

Factors that may affect future tax charges:

The company has tax adjusted non-trade losses of £41,622 (2017: £41,622) available for carry forward against future non-trading profits.

12. Dividends

From Halsey Garton Property Ltd to Surrey County Council:

	2018	2017
	£	£
Paid during the year	750,000	0
Declared post year end	1,600,000	750,000

From Halsey Garton Property Investments Ltd to Halsey Garton Property Ltd:

	2018	2017
	£	£
Received during the year	850,000	0
Declared post year end	1,650,000	850,000

13. Fixed assets – investments

Investments in subsidiaries are carried at fair value where this can be reliably measured and, for Halsey Garton Property Investments Ltd, this has been determined with reference to the underlying property assets held by the subsidiary. Details on the assumptions made and the key sources of estimation uncertainty are given in note 5.

The net deficit on revaluation of investments arising of £921,588 as at 31 March 2018 has been debited to the profit and loss for the year and transferred to the fair value reserve.

	Investments in subsidiaries	
	2018	2017
	£	£
Valuation at 1 April 2017	35,851,342	2,184,383
Additions	25,344,000	41,539,000
Fair value adjustments	(921,588)	(7,872,041)
Disposals	0	0
Valuation at 31 March 2018	60,273,754	35,851,342

Additions totalling £25,344,000 in 2018 represent additional capital invested in Halsey Garton Property Investments Ltd.

14. Debtors

	2018	2017
	£	£
<i>Debtors due after more than one year</i>		
Amounts owed by subsidiary undertaking	178,797,000	118,550,000
Sub-Total	178,797,000	118,550,000
<i>Debtors due within one year</i>		
Accrued income and prepayments	0	0
Amounts owed by parent company	0	0
Deferred tax asset	7,076	7,076
Trade debtors	0	0
VAT	1,931	1,497
Other debtors	0	0
Sub-Total	9,007	8,573
Total	178,806,007	118,558,573

Included within long term debtors are intragroup loans totalling £178,797,000 provided to Halsey Garton Property Investments Ltd. These are revolving facility, maturity loan agreements at interest rates ranging from 5.5% to 6.6%. All are due to be repaid in full ten years from the original loan draw down. The carrying amount as at 31 March 2018 is included at amortised cost.

15. Creditors: amounts falling due within one year

	2018	2017
	£	£
Amounts owed to group companies	4,019	3,249
Corporation tax	0	0
Other creditors	5,851	7,581
Total	9,870	10,830

16. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Amounts owed to parent entity	178,955,432	118,708,432
Total	<u>178,955,432</u>	<u>118,708,432</u>

Intragroup loans totalling £178,955,432 have been provided by Surrey County Council to Halsey Garton Property Ltd. These are maturity loans at interest rates ranging from 5.5% to 6.6% and all are due to be repaid in full, ten years from the original loan draw down. The carrying amount as at 31 March 2018 is included at amortised cost.

17. Deferred tax provision

	2018 £	2017 £
Opening balance at 1 April 2017	(7,076)	(82,774)
Deferred tax asset for unrelieved tax losses	0	(7,076)
Deferred tax asset for loss on revaluation	0	82,774
Closing balance at 31 March 2018	<u>(7,076)</u>	<u>(7,076)</u>

There is a potential deferred tax asset on investment revaluations of £1,817,901 which has not been recognised in the accounts due to uncertainty about the availability of sufficient capital profits in the foreseeable future to utilise the losses against. This is because the group is continuing to grow its property portfolio, thereby incurring significant transaction costs and its strategy is to hold investments for long term income returns and not capital gains. It is also unlikely that any investment will be sold until it is beneficial to do so.

18. Called up share capital

Authorised, allotted and fully paid:

	2018 £	2017 £
1 founders' shares of £1,000 each	1,000	1,000
69,425 ordinary shares of £1,000 each	69,425,000	44,081,000
Total	<u>69,426,000</u>	<u>44,082,000</u>

19. Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment assets until they are sold or an asset is impaired. A potential deferred tax asset on revaluations of £1,817,901 has not been recognised in 2017 – see also note 17 above. The reserve is used to distinguish unrealised profits/(losses) from realised profits/(losses) which are held in the profit and loss account.

	Fair value reserve 2018 £	2017 £
Reserve at 1 April 2017	(8,230,660)	(275,845)
Fair value adjustments (Note 13)	(921,588)	(7,872,041)
Deferred tax asset for loss on revaluation	0	(82,774)
Reserve at 31 March 2018	<u>(9,152,248)</u>	<u>(8,230,660)</u>

20. Related party disclosures

Halsey Garton Property Ltd is 100% owned by Surrey County Council (SCC) which is the ultimate controlling party. SCC draws up consolidated financial statements for the group and its principal place of business is County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN.

The only related party transactions were intra-group transactions between Halsey Garton Property Ltd and SCC and between Halsey Garton Property Ltd and Halsey Garton Property Investments Ltd and these have not been disclosed in accordance with section 33.1A of FRS 102.

21. Post balance sheet events

No material non-adjusting post balance sheet events have occurred.

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The Audit Findings for Halsey Garton Property Limited and its subsidiary

Year ended 31 March 2018

19 July 2018

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Board of directors
Halsey Garton Property Limited and its subsidiary
County Hall
Penrhyn Road
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13 July 2018

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Dear Sirs

Audit Findings for Halsey Garton Property Limited and its subsidiary for the year ended 31 March 2018

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) 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), 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.

Richard Hagley

Director
For Grant Thornton UK LLP

Chartered Accountants

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Contents



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Section	Page
1. Audit findings	5
2. Independence, ethics, fees and non-audit services	16
3. Communication of audit matters	18

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Status of the audit

Our work is substantially complete subject to the following areas:

- receipt and review of the final financial statements;
- receipt and review of the signed management letter of representation; and
- updating our post—balance sheet events review to the point of issue of the audit report.

There are currently no matters of which we are aware that would require modification of our audit opinion.

Audit opinion

Our anticipated audit report opinion will be unqualified.

Section 1: Audit findings

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA (UK) 600	Planned audit approach
Halsey Garton Property Ltd	Yes	Comprehensive	Full scope UK statutory audit
Halsey Garton Property Investments Ltd	Yes	Comprehensive	Full scope UK statutory audit
Halsey Garton Residential Ltd	No	Analytical	Desktop review only; no statutory audit required
Halsey Garton Property Developments Ltd	No	Analytical	Desktop review only; no statutory audit required



- 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

Audit findings – Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Significant risks identified in our Audit Plan	Component risk relates to	Commentary
<div>1</div> Improper revenue recognition <ul style="list-style-type: none">Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.We therefore identified this as a risk requiring special audit consideration.	Halsey Garton Property Ltd and Halsey Garton Property Investments Ltd	Auditor commentary <ul style="list-style-type: none">We completed the following procedures:<ul style="list-style-type: none">documented and considered management’s controls over revenue recognition;substantively tested rental revenues for the year; andsubstantively tested year end debtors balances. <p>No issues in relation to improper revenue recognition were noted from our audit procedures completed.</p>
<div>2</div> Management override of controls <ul style="list-style-type: none">Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities.We therefore identified this as a risk requiring special audit consideration.	Halsey Garton Property Ltd and Halsey Garton Property Investments Ltd	Auditor commentary <ul style="list-style-type: none">We completed the following procedures:<ul style="list-style-type: none">reviewed accounting estimates, judgments and decisions made by management;tested journal entries;reviewed of unusual significant transactions. <p>No issues in relation to management override of controls were noted from our audit procedures completed.</p>



Audit findings – Reasonably possible risks

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 is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental.

Reasonably possible risks identified in our Audit Plan

Component risk relates to

Commentary

1

Investment Property

- Revaluation measures not correct (Valuation – Gross)

Halsey Garton Property Ltd (group financial statements only) and Halsey Garton Property Investments Ltd

Auditor commentary

- We completed the following procedures:
 - documented our understanding of management's arrangements for valuing investment properties;
 - agreed the revaluation adjustments in the financial statements to the report of the external valuer; and
 - reviewed the appropriateness of the methodology and assumptions applied in performance of the revaluations.

No issues in relation to the year end valuation of investment property were noted from our audit procedures completed.

2

Investment Property

- Investment property activity not valid (Valuation – Gross)

Halsey Garton Property Ltd (group financial statements only) and Halsey Garton Property Investments Ltd

Auditor commentary

- We completed the following procedures:
 - reviewed management's policies for capitalisation of expenditure; and
 - substantively tested capital additions for the year.




No issues in relation to the valuation of investment property additions expenditure were noted from our audit procedures completed.

Audit findings – Reasonably possible risks (continued)

Reasonably possible risks identified in our Audit Plan	Component risk relates to	Commentary
<div>3</div> Operating Expenses <ul style="list-style-type: none">Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period (Completeness)	Halsey Garton Property Ltd and Halsey Garton Property Investments Ltd	Auditor commentary <ul style="list-style-type: none">We completed the following procedures:<ul style="list-style-type: none">Documented the controls in place in relation to the recording of expenditure and year end accruals;Performed unrecorded liabilities testing to assess whether there are any additional liabilities that should have been accrued;Performed substantive testing of expenditure and year end creditor and accrual balance; andreviewed the appropriateness of the approach adopted by management for estimating year end expenditure accruals. <p>No issues in relation to the completeness of expenditure and year end creditor balances were noted from our audit procedures completed.</p>



Audit findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Going concern	After reviewing the group's forecast and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.	<p>We have reviewed management's assessment of going concern and are satisfied that the going concern basis is appropriate for the financial statements for the year ended 31 March 2018.</p> <p>We note that the group was at a net current liability position as at year end of £3.6m. This was primarily due to £4.7m of capital creditors in respect of the Nottingham acquisition that were financed through £4.6m of loan and equity funding received by the Group in April 2018. We are therefore satisfied that the year end net current liability position is not indicative of any going concern risks.</p>	 Green
Revenue recognition	Revenue from rents and other property related services, is recognised when the property or service is provided, rather than when payments are received.	We have reviewed the Companies' revenue recognition policies and have verified that they are reasonable and compliant with the requirements of FRS 102.	 Green
Judgements and estimates	<p>Significant estimates and judgements include:</p> <ul style="list-style-type: none"> • expenditure accruals; • capitalisation of expenditure; • deferred income; • accrued income in respect of unamortised lease incentives; • deferred tax; • fair value of investment property; • fair value of Halsey Garton Property Ltd's equity investment in Halsey Garton Property Investments Ltd; and • judgements made in preparing the group financial statements. 	We are satisfied regarding the appropriateness of significant accounting judgements and estimates reflected within the accounts.	 Green

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Audit findings – accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102.	We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102. The accounting policies adopted are appropriate and consistent with previous years.	<div><div></div><div>Green</div></div>

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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 in our Audit Plan. We have not been made aware of any incidents of fraud in the year 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"> 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 with laws and regulations.
4	Written representations	<ul style="list-style-type: none"> Representations will be requested from management in respect of the significant assumptions used in making accounting estimates.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation requests to Cushman & Wakefield and HSBC in respect of the Company's closing cash balances as at 31 March 2018. This permission was granted and the confirmation requested from Cushman & Wakefield was received. We are still awaiting receipt of the confirmation requested from HSBC and will undertake alternative procedures to gain assurance around your cash balance in the event that this confirmation is not received.
6	Disclosures	<ul style="list-style-type: none"> We identified no disclosure omissions in the financial statements.
7	Internal controls	<ul style="list-style-type: none"> During our audit we did not note any significant deficiencies in internal controls to report.

Section 2: Independence, ethics, fees and non-audit services

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Independence, ethics, fees and non-audit services

The table below sets out the total fees for audit and non-audit services charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

	Fees £	Threat identified	Safeguards
Audit of Halsey Garton Property Ltd	£3,750	None noted	N/A
Audit of Halsey Garton Property Investments Ltd	£8,750	None noted	N/A
Total audit	£12,500		

- No non-audit services have been provided to the Company by Grant Thornton UK LLP.
- The audit fee was not provided on a contingent fee basis.

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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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Section 3: Communication of audit matters

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. 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 including significant risks and Key Audit Matters	•	
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	•	•
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	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), 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 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, findings 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 an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton at a glance

Grant Thornton International Ltd

- Fee income \$4.8 billion
- Over 130 countries
- Over 700 locations
- Over 47,000 people
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FTSE 100 are
non-audit clients

56%



People
worldwide

47,000



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Audit & Governance Committee
12 December 2018

External Audit Update Report

Purpose of the report:

This paper provides the Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments.

Recommendations:

The committee is asked to note the external auditors progress report (Annex1).

Introduction:

1. International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which the external auditor is required to communicate with those charged with governance (the Audit & Governance Committee).
2. The attached report details Grant Thornton's progress on delivering their responsibilities as the Council's external auditor.

Conclusions

Financial and value for money implications

3. There are no direct financial and value for money implications of this report.

Equalities and Diversity Implications

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

Risk Management Implications

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

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

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Audit Progress Report and Sector Update

Surrey County Council

Year ending 31 March 2019

12 December 2018



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Introduction



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This paper provides the Audit & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress on 2017/18 at 26 November 2018

Financial Statements Audit

We issued our 2017/18 audit report on 31 July 2018.

We are due to commence our interim audit in March 2019. At our interim fieldwork visit we will carry out early substantive testing.

We reported the findings from the audit to you at the July Audit & Governance Committee and in our Annual Audit Letter in August 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

We issued our 2017/18 Value for Money opinion on 28 September 2018.

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Children's Services

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Sustainable resource deployment

The Authority is drawing heavily on its reserves to balance its annual budgets and cannot set a sustainable budget with sufficient capacity to absorb emerging cost pressures with its current levels of income and funding.

The Authority used £11 million of its usable reserves to balance its budget in 2017/18 and, at 31 March 2018 usable reserves, stood at £102 million. The Authority managed its financial position in year by implementing short term spending cuts, which allowed it to deliver a £1.3 million underspend for the year against budget.

Progress on 2017/18 at 26 November 2018

The Authority engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function. CIPFA reported in July 2018 that the Authority will not have sufficient reserves to meet its expected budget gap in 2019/20 unless it acts now. The report also stated that unexpected increases in demand and a failure to deliver a significant proportion of the planned savings in 2017/18 undermined the credibility of the financial estimates reported in-year and necessitated short term spending cuts that can adversely impact on services.

The Authority's current medium term financial plan for 2018 to 2021 requires it to deliver £250 million of savings over three years, with £66 million required in 2018/19. The Council also plans to use a further £21 million of reserves to balance the budget. The CIPFA report highlighted a lack of granularity in some of the estimated pressures and changes facing the Authority, and considerable uncertainties over the delivery of a number of the planned savings.

These matters are evidence of weaknesses in proper arrangements for securing sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

A report setting out the findings from our work will be produced and shared with management. We will continue to monitor the Council's financial resilience.

Other areas

Pension Fund Annual Report

We issued our consistent with opinion on the Surrey Pension Fund Annual Report on 8 November, confirming that it was consistent with the information in the Council's financial statements

Certification of claims and returns

We are required to certify the Council's Teachers' Pensions Return.

The results of the certification work are reported to you in our certification letter.

Completion Certificate

Having completed our audit in respect of 2017/18 we issued our completion certificate on 26 November 2018.

Progress on 2018/19 at 26 November 2018

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and will be onsite w/c 3 December 2018.

Our risk assessment fieldwork visit will include:

- Updated review of the your control environment
- Updated understanding of your financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues

We will compile our Audit Plan once our risk assessment is complete and report the plan to you in February 2019.

We are due to commence our interim audit in March 2019. At our interim fieldwork visit we will carry out early substantive testing.

We will also request and review a working paper from management setting out how the financial statements will be affected by the two new accounting standards, IFRS 9 and IFRS 15.

We will report any findings from the interim audit to you at the May 2019 Audit & Governance Committee (or immediately if a significant matter and / or fraud related).

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We have begun our initial risk assessment to determine our approach and will report any areas we consider to be risks to achieving the three sub criteria in our Audit Plan.

We will summarise the work we carry out against these risks in our Audit Findings Report and give our Value For Money Conclusion in July 2019.

Other areas

Certification of claims and returns

We are required to certify the Council's Teachers' Pensions Return.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers in October as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in November to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is the LG Chief Accountant Workshops which take place over various dates in early 2019. Your finance team have been invited to these workshops. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue an audit plan to the Audit & Governance Committee setting out our proposed approach in order to give an opinion on your 2018-19 financial statements.	February 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	May 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit & Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit & Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

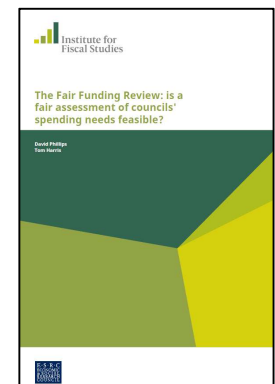
The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

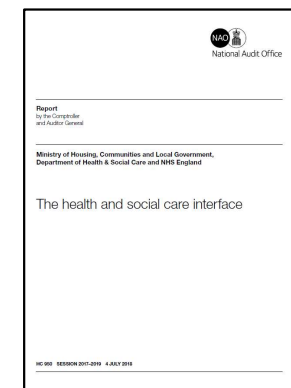
Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of *Radical Help*) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at [#acaringsociety](https://twitter.com/acaringsociety)



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

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Audit & Governance Committee
12 December 2018

**External Audit Update Report - Supplementary Value For
Money Findings Report 2017/18**

Purpose of the report:

This paper provides the Committee with a supplementary report issued by the Council's external auditors, Grant Thornton, on the Council's Value for Money arrangements.

Recommendations:

The Committee is asked to note the external auditor's supplementary report (Annex1).

Introduction:

1. Grant Thornton issued their Audit Finding Report, to this Committee, on 26 July 2018. The report set out the auditors' opinion on the financial statements of the Authority and is also required to issue a conclusion on the appropriateness of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (known as a Value for Money conclusion).
2. The Audit Findings Report issued an unqualified opinion on the financial statements, concluding that they gave a true and fair view of the financial position of the Authority at the 31 March 2018.
3. The Audit Findings Report also explained that, at the time of issue, no formal conclusion could be given on the Authority's value for money arrangements. Two risk areas had been identified which would be the focus of the value for money work. Grant Thornton had concluded their work in relation to Children's services but were at the time unable to conclude their work relating to financial health, as they were yet to receive a copy of either the terms of reference or final report of the CIPFA review being carried out at the same time.
4. On the 28 September 2018, having completed this work, Grant Thornton issued an adverse opinion on the Authority's value for money arrangements, concluding that they were not satisfied that, in all significant respects, the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

5. They identified the following issues:

- Children's Services – a review of the May 2018 Ofsted report led Grant Thornton to conclude in July 2018 that the processes and procedures the Council has in place in relation to children's services are not conducive to providing value for money for residents.
- Financial health - The Authority is drawing heavily on its reserves to balance its annual budgets and cannot set a sustainable budget with sufficient capacity to absorb emerging cost pressures with its current levels of income and funding. These matters are considered to be evidence of weaknesses in proper arrangements for securing sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

Conclusions

6. The additional report, included in annex 1, is supplementary to the Audit Findings Report, issued on 26 July, and is intended to provide further information to this Committee on the basis for the auditors Value for Money conclusion, which was issued on 28 September and is attached as appendix 1.
7. The supplementary report summarises the additional work undertaken to support the value for money conclusion, specifically in regard to the Council's financial health. The review considered the significant financial challenges facing the Council and the implications for the Council's on-going financial position and plans to achieve financial sustainability.

Financial and value for money implications

8. There are no direct financial and value for money implications of this report not already included in the annex.

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.

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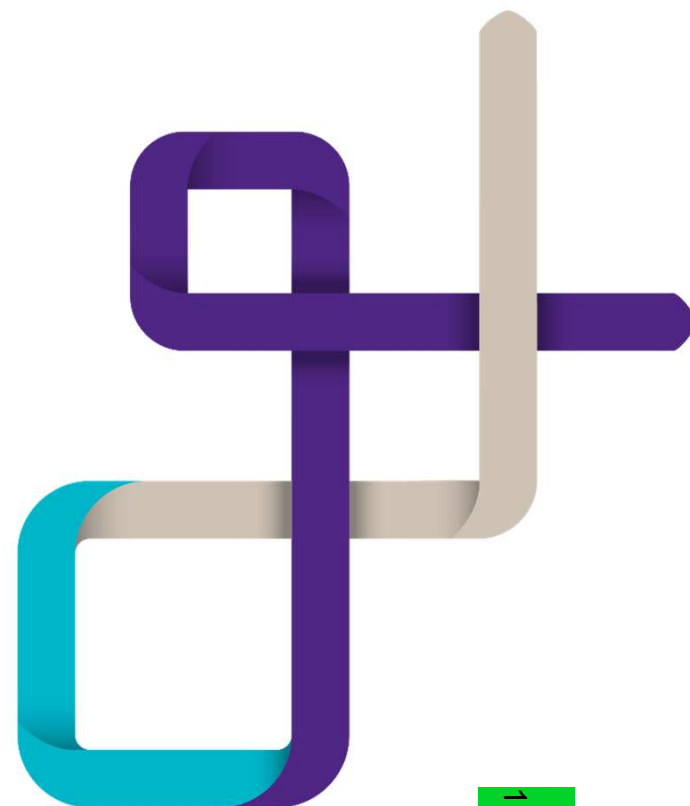
Supplementary VFM Findings Report 2017/18:

Review of financial health arrangements

Surrey County Council

26 November 2018

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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.

Summary of findings

Overview

The Council has taken robust steps to address the significant financial challenge that it faces in 2018/19 and over the next two years up to 2020/21. Significant progress has been made recently and under Cabinet oversight, the new management team has acted promptly and effectively to strengthen arrangements to manage and deliver the planned savings.

However, at the time of review further work was underway to develop the new in year savings and the transformation plans to full business case stage so they can be implemented. Delivery of the additional in-year savings and the transformational programme within the required timeframe remains highly challenging and will require key delivery milestones to be met in full and on schedule if financial resilience is to be achieved by 2020/21.

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1. MTFP and key assumptions and savings plans 2018/19

We note that since financial year 2017/18 there have been significant changes to the management team and they have collectively recognised that the approach taken in previous years to use reserves to balance the budget is not sustainable and that urgent action is needed. This includes a formal recognition of the responsibility of individual senior managers to deliver change in the form of budget accountability statements.

- The Council is reporting that it is on track to deliver planned MTFP savings of £66m for 2018/19 and this corresponds to detailed financial reporting information provided by the Council's corporate finance function.
- However, an in year unfunded budget pressure of £15m has also emerged that will need to be mitigated in addition to the anticipated funding deficit. This overspend is related to pressures on SEND that should be funded through the High Needs Block of the DSG but the Council is responding to this to ensure it does not erode their financial standing. This is being addressed by increased savings built into revised budget envelopes for the current year, which have been approved by the Cabinet (see below).
- In addition to planned MTFP savings, revised budget envelopes for 2018/19 have been developed which aim to reduce in-year spending by a further £40m. This is based primarily on short term and one off measures. These in-year savings have been identified as an await management action to implement in full but with only six month of the year remaining to deliver them and there is a significant risk that savings will fall short of the planned total.

- The in year savings are primarily concerned with avoiding the planned drawdown of reserves of £21m and mitigating the projected £10m budget pressure that has arisen in year. If delivered in full, this will enable a small contribution to reserves to be made and will maintain the Councils ability to use reserves to manage future financial pressures during 2019/20 and 2020/21.
- However, should the Council fall short of its £40m in year savings target, the remaining reserves available to manage financial pressures will be depleted. The Council will then have limited scope for the further use of reserves to mitigate any potential budget overspends or shortfalls in savings in 2019/20 and 2020/21, without compromising other projects and commitments or undermining its ongoing financial resilience.
- The Council has taken steps to identify non-recurrent savings included within current savings plans and has added these back to the projected budget envelopes from 2018/19 onwards to ensure the resulting deficits are closed on a sustainable and recurrent basis through the transformation programme.
- We note that a key factor in the achievability of the £85m saving target for 2019/20 has been the reduction of MTFP assumptions over demand cost pressures, focused on Adult Social Care. The reduction in cost pressures is dependent on behavioural and cultural changes within the services and there is a risk that this may take longer to implement than anticipated resulting in these cost pressure re-emerging.

2. Transformation plan and projects 2019-2021

- The Council is in the process of developing a revised transformational programme to reduce demand and costs within available resources by the end of 2020/21. The draft business cases were reviewed by Cabinet on 30 October 2018 and final business cases are due for approval in November 2018.
- Additional external resources have been procured to support the development of robust business cases covering transformation across the full range of Council services.
- The existing transformation projects have been subject to 'deep dives' during the first part of 2018/19 to challenge their robustness and this has resulted in a reduced number of more robust outline business cases.

Summary of Findings (Cont'd)

- In most cases, savings within the transformational programme will require further development before they move to full business case stage. In some cases they are contingent on extensive stakeholder consultation and member agreement. All of these aspects indicate that a significant lead time may be required before savings can start to be realised. There is a risk that the Council may under-estimate the lead time required to deliver the full value of savings within the required timeframe.
 - The interdependencies between the projects will also need to be carefully managed to ensure effective delivery. Effective programme and project management will be essential to ensure the in-year and transformational programme is effectively managed and remedial action identified and taken as required. The risk of slippage is moderate to high and the Council needs to consider how it might mitigate this risk, given that reserve levels may not be able to accommodate significant under delivery.
- The extent of the transformational change across the Council should not be underestimated, services and staff will both have to facilitate change whilst also being directly affected by the transformational programmes.

3 Other Sources of Evidence

The review by CIPFA into Surrey County Council Finance concluded that there was an urgency in the need to build financial resilience in Surrey County Council. It concluded that tackling the financial difficulties that Surrey County Council involves addressing the following five key points:

- Securing the commitment of everyone connected to Surrey County Council to resolving the financial difficulties faced.
- Re-structuring the Finance team so that it has a more dynamic, central role in driving change across the organisation.
- Planning now for the known uncertainties in the estimates for 2018-19.
- Implementing the structural changes needed to maintain a balanced budget in 2019-20 and 2020-21.
- Building a more robust approach to business management so that the changes made can be sustained.

As has been noted under points 1 and 2 above, the Council has acted promptly to address the 5 points, including specific actions to address identified weaknesses in the 2018/19 financial position and by strengthening its transformation programme to underpin the plans to address the revised savings plans for 2019/20 and 2020/21. The Council has also established an Finance Improvement Programme to ensure that the Finance team has sufficient and appropriately skilled resources.

Recommendations

We are satisfied that the Council is currently undertaking a robust process to identify and implement its transformation plans. In our view Council should therefore continue to :

- Embed the new programme and project management arrangements and provide close support and scrutiny over the activity of service directors and budget holders on an ongoing basis.
- Monitor progress against planned savings on a regular basis, at least monthly recognising that in some circumstance, weekly updates may be required at critical stages.
- Ensure that the Council has the capacity and skills to manage the change and bring in additional external support as required.
- Embed a culture of ownership of financial management across the organisation.
- Ensure that the impact of transformational changes to services is fully understood and analysed in terms of benefits and risks to communities.
- Make sure that efforts to expedite and implement aspects of transformation prior to the full business cases being finalised, do not risk overlap or conflict with the overall transformation programme.
- While the Council has identified an additional £40m of savings in 2018/19 to reduce the use of reserves, it should consider whether a pipeline of additional plans can be developed to mitigate risks which may arise during the implementation of the transformation programme.

Context

Background to the Council's financial challenges

Following the Government Spending Review in 2010, the Cabinet and the Council anticipated and planned for reductions in government funding over the medium term. The Council's plan was to build up reserves, however, the extension of austerity and delays to the Fair Funding review meant that these were not sufficient to see it through to a period of sufficient and stable funding. The Council's 2015-2020 Medium Term Financial Plan (MTFP) was designed to increase its financial resilience, manage any additional call on council taxpayers and reduce the Council's reliance on council tax and Government grants.

There were a number of structural issues that had, and continue to have, an adverse affect on the Council's funding position:

- In 2014/15 £65m of funding for severe Learning Disabilities (LD) was rolled into RSG by government. RSG has subsequently been reduced to £4.5m in 2018/19. In 2018/19 the Council's view is that it received £39m less in SFA (core funding) than the estimated cost of providing LD services.
- NHS public health was transferred to Local Government but Surrey received £14m less funding than what the Council considers is required.
- In addition, a shortfall of approximately £5m for national funding for unaccompanied asylum children that they take into care.

In February 2016 the Leader of the Council reported to Cabinet and Council, that they could not wait on Government to provide a solution and that as demographic demand pressures continued to grow the Council needed to find new ways of delivering the services, which was why implementing the Public Value Transformation programme was of great importance.

Implementation of the transformation programme in 2016 and 2017 was not at the speed anticipated or required and therefore put further pressure on the Council's financial position.

In 2018 Council has developed a new and ambitious transformation programme in order to balance rising demand with flat or falling resources – including the need to make extensive budget savings up to 2017/18 and throughout the period of the Council's medium term financial plan up to 2020/21.

There is strong political and management support for the new transformation programme as the Council recognises that delivering Council services within reduced future funding envelope, while minimising the need for Council tax increases, requires services to be delivered more efficiently, through greater use of technology and other means.

In some cases the Council will also have to consider the range and extent of services offered in the context of the level of priority to the County's residents, requiring an effective dialogue between elected members and the public.

In order to cover the cost of delivering services while service transformation could be undertaken, the Council has made use of the reserves it had built up to help fund an annual budget deficit, since 2014.

Based on the current MTFP, by the end of 2018/19, the Council's reserves reserve levels will have reduced to roughly the level they were at in 2010/11 at the start of the period of austerity. Due to the need for a minimum level of reserves to be held to mitigate against financial risks. The Council had previously assessed that it would not be prudent for reserves to be reduced further.

The Council has delivered significant savings through its current MTFP. However, during 2018, the Council's management team identified weaknesses in the design and execution of existing MTFP savings plans and that a significant proportion of savings to date have been achieved on a non-recurrent basis and have therefore not resulted in a permanent reduction in the budget. This means that additional recurrent savings have to be found from 2018/19 onwards in order to achieve a balanced budget.

Action taken by the Council

The financial position has prompted the Council's Cabinet and management team to significantly revise and accelerate its medium term financial plan and transformation plans for the period 2018/19 through to 2020/21. In order to protect reserves and ensure financial resilience, it has also been necessary to develop short term measures to limit expenditure in 2018/19.

Context

The following action has been taken by the Council:

- Review of Financial Resilience commissioned from CIPFA
- A programme of 'Deep dives' undertaken into existing savings and transformational plans to provide challenge and the basis for revision.
- New budget envelopes set for 2019/20 onwards for each service that in total will lead to a balanced budget without the need for the use of reserves or other one-off savings.
- Revised budget envelopes for the current year (2018/19) that aim to reduce spending by £40m in year. If successful this will mean not having to use reserves to balance the budget this year as originally planned.
- A revised accelerated transformation programme to bring costs and expenditure within available resources from 2019/20 onwards.
- Budget managers (executive directors and heads of service) are to be held accountable for delivering within budget envelopes, backed up by a signed Budget Accountability Statement.
- The Cabinet has agreed a Preliminary Financial Strategy ("PFS") to take to full Council in November, that will reflect the results of the actions noted above. The Cabinet, supported by the Corporate Leadership Team, have been central in defining the Council's key priorities included within the Organisation Strategy, and identifying the drivers of change to transform and become a very different organisation.
- In addition, members have been more widely engaged in the shaping of the Organisation Strategy, including through Corporate Overview Select Committee (COSC) reviewing the Community Vision for Surrey and corporate Full Business Cases at their meeting on 20 September 2018, and the Organisation Strategy on 25 October 2018.
- As part of the PFS the Council is considering a range of measures to achieve the savings it needs to make to deliver a sustainable budget for the long-term. A number of public consultations launched on 30 October 2018. The Council will take Residents' and other stakeholders' views on-board for the decisions members need to take, and consultation results will be reported to Cabinet and Council in early 2019 to inform decision making around the revenue and capital budget for 2019/20.

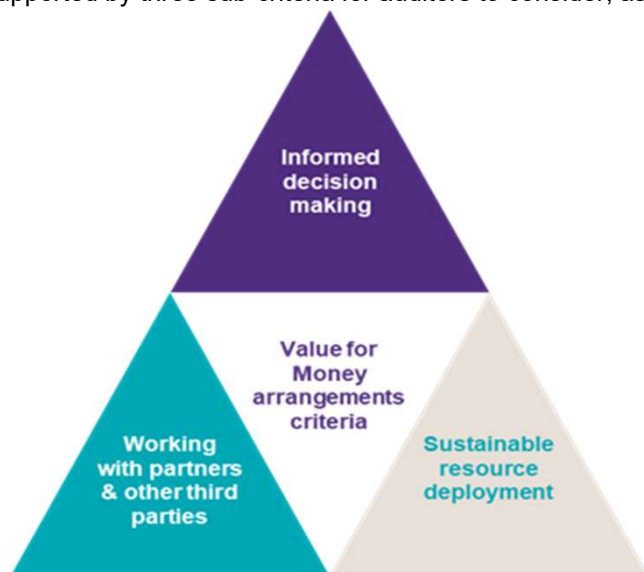
Our Approach to VfM Risks

Overview of VfM methodology and risk assessment

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had, in all significant respects, proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority had in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

This is supported by three sub-criteria for auditors to consider, as set out in the following diagram:



As part of planning, auditors are required to consider the risk of reaching an incorrect conclusion in relation to the overall criterion. The risk assessment enables the auditor to determine the nature and extent of further work that may be required. This means that if the auditor does not identify any significant risks there is no requirement to carry out further work.

The risk assessment draws on relevant information including, but not limited to:

- cumulative knowledge brought forward from previous audits;
- relevant findings from work undertaken in support of the opinion on financial statements;
- reports from the audited body including internal audit;
- information disclosed or available to support the annual governance statement and annual report (where applicable);
- information available from the audited body's own risk registers and supporting arrangements; and
- reports from regulators or inspectorates in relation to services provided by the audited body.

Where the auditor has identified 'significant risks', or is unable to conclude whether a significant risks exists without undertaking significant additional work, the auditor should document the additional work they plan to do in response and report these risks to those charged with governance. Any additional work undertaken should be proportionate to the severity and nature of the significant risk(s) identified.

Our Approach to VfM Risks (Cont'd)

We carried out an initial risk assessment in January 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you via our Audit Plan in March 2018. These were:



Financial Health

The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Forecast revenue budget outturn for 2017/18 was a £6m overspend.

We planned to review your Medium Term Financial Plan, including the robustness of assumptions, savings plans and revenue generating schemes. We planned to discuss your plans and outcomes with management, as well as reviewing how finances were reported to Councillors.



Children's Services

Ofsted issued a critical report on children's services in 2014/15 and the Council was awaiting a follow up review. We issued qualified except for conclusions in 2014/15, 2015/16, and 2016/17 due to Department for Education interventions.

We planned to review any third party reports as well as your own monitoring and self-assessment.

The purpose of this review

This review summarises the additional work we undertook to support our VfM conclusion, specifically in regard to the Council's financial health. This review considered the significant financial challenges facing the Council and the implications for the Councils on-going financial position and plans to achieve financial sustainability.

This report is supplementary to our Audit Findings Report, Issued on 26 July 2018 and is intended to provide further information to those charged with governance on the basis for our VfM Conclusion, which was issued on 28 September 2018 and is attached as Appendix 1.

Children's services

Our review of the May 2018 Ofsted report led us to conclude in July 2018 that the processes and procedures the Council has in place in relation to children's services are not conducive to providing value for money for residents.

We reported that although you have begun to address these issues over the last few months at the time of writing it is too early to judge whether these changes will have the desired effect and whether they will become embedded across the organisation.

Further to this, we note that the Commissioner for Children's Services in Surrey published a letter on 31 October 2018 in which he wrote to the Secretary of State for Education to recommend that Surrey County Council retain control of the delivery of its children's social care services. The Commissioner recommends that the Minister allows the Council a further 12 months to demonstrate that the action plan it has put in place is working, alongside reviews by the Commissioner in around 6 and 12 months.

The Commissioner writes that the political leadership of the Council has accepted the need for change. However the Commissioner notes that it is too early to make a secure judgement about whether the steps that have and are being taken will bring about sustainable improvement in the effectiveness of children's social care services in Surrey.

We are satisfied that the Commissioner's report is in line with our previous conclusion reported in September 2018.

Our Approach to VfM Risks (Cont'd)

Our approach to assessing the financial risks

We met with the Chief Executive in April 2018 and discussed the Council's financial challenge and our planned VfM work. In May 2018 we presented the Chief Executive with a proposal setting out the VfM audit work which we planned to undertake. We were subsequently informed that the Council had engaged CIPFA to undertake a review of the it's financial resilience and that as the work overlapped with our proposal we agreed to await the publication of the CIPFA report before completing our planned work and concluding on the VfM arrangements. We did however review the Council's in year financial reporting and 2018/19 budget and identified, from Cabinet papers and in discussion with the Finance team, that the Council had failed to delivered the full level of savings required in 2017/18 but had managed its financial position using non recurring measures. Given the planned increased use of reserves in 2018/19 we were concerned at both the size of the budget gap identified, the risks to the in-year delivery of the required recurring savings and the status of the Council's arrangements to deliver the required medium term savings.

In July 2018 we were informed that the CIPFA review had not covered the matters we had outlined in our proposal and so we proposed a revised work programme to the Interim Director of Finance to enable:

- Consideration of the MTFP and the key assumptions and savings plans for 2018/19
 - Review of savings achieved in 2017/18 against original savings plan.
 - Plans for Council Tax increases and predictions for business rates pilots.
 - Review of reserves and the use of reserves over the last few years.
 - Consideration of Deep Dives undertaken.
- Consideration of the transformation plan including transformation projects.
 - How are outline business cases (OBC) set up? How are full business cases (FBC) set up? What level of scrutiny is applied and what governance structure is set up to review and approve OBCs and FBCs?
 - Are financial savings recorded gross or net of any investment (including one-off and ongoing costs)? Are non-financial savings taken into account when projects are set up and monitored?

- What stage are the transformation plans at the time of the work (OBC / FBC)? What savings have been delivered to date? What RAG rating is attached to each project? How RAG ratings are derived. How savings are monitored and challenged going forward.
- Consideration of the CIPFA report.
- Discussions with the Council Leader, Chief Executive, s151 officer, and other appropriate people to obtain assurance over the plans and arrangements given the size of the challenge.
- Review of budget outturn reports for 2018/19 to date.

As part of this process we have interviewed a range of senior officers involved in the financial planning and monitoring process and for facilitating the delivery of transformational savings. We have also performed a review of relevant documentation, including Cabinet reports and business cases.

Limitations in scope

We have only carried out work in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Detailed findings

1. The MTFP and the key assumptions and savings plans for 2018/19

Area of focus	Findings
Overview of MTFP and savings plans for 2018/19	<p>The Council is facing forecast price and demand pressures and based on the savings planned within the MTFP will need to draw down from its reserves to achieve a balanced budget. The Council's current MTFP assumes that £66m of savings will be made in regard to 2018/19 outturn, and that c.£21m of reserves will be drawn down.</p> <p>The Council plans to deliver £66m as set out in its MTFP and financial reporting in the year indicates that it is on track to deliver this. The Council identified approximately £74m (comprising £71.7m savings target aggregated across the directorates plus reported net savings plans over target to the value of £2m) of proposals to meet the £66m of planned MTFP savings. This provides some headroom, but as at September 2018 the Council is projecting delivery of £68m based on their assessment of risk.</p> <p>The £68m comprises approximately £32m already reported as achieved, £24m on track (Green RAG rated), £13m which at some risk (Amber) and £5m at high risk (Red). The projection is equivalent to all Ambers being delivered but all Reds not, but this does still allow for c.£2m of further slippage whilst enabling the £66m to still be met.</p> <p>The Council has taken steps to ensure that the savings delivered are recurrent, and where they are not recurrent, that this has been identified and rolled forward into the revised savings requirement for 2019/20.</p>
Review of savings achieved in 2017/18 against original savings plan	<p>The Council achieved a £1.3m underspend on budget and delivered £80m in savings in 2017/18. However, this was below the planned savings target of £104m which has added increased pressure to deliver additional savings in 2018/19 and beyond. In addition, the Council identified that a significant proportion of the saving achieved was non-recurrent (one-off) and would therefore have to be rolled forward into the revised savings target for 2019/20. Within this it was noted by the Council that planned transformational savings in the latter years of the MTFP were not supported by robust business cases, prompting the process of deep dives and the revision of business cases that has taken place in the first half of 2018/19.</p>
Plans for Council Tax increases and predictions for business rates pilots	<p>The plan is to increase council tax by the maximum amount without triggering a referendum. No further adults precept is anticipated (SCC did 3% and 3% rather than one off 6%). The Council has benefitted from being a business rates reform pilot, however, the benefit has been treated as a one off benefit as it cannot be guaranteed to deliver benefit in future years.</p>
Use of reserves	<p>The Council's current MTFP includes an assumption to draw down on reserves, with £21m planned to be used in 2018/19 to supplement service budgets. As at 31 March 2018, usable reserves stood at £102m including earmarked reserves that could in theory be deployed to support the future financial position. However, in reality a significant proportion of earmarked reserves relate to schools (£42m) or are allocated to fund existing commitments and projects. A budget equalisation reserve of £23m has been set aside that would cover the planned MTFP use of reserves for 2018/19 but any further use would be at the expense of other commitments and projects, and the Council's ability to manage future risks around the budget could be impacted. Therefore the £40m additional in year savings is essential if the Council's ability to manage future financial risks is to be maintained – including the ability to manage any shortfall in savings delivered by the Transformation programmes.</p>

Detailed findings (Cont'd)

1. The MTFP and the key assumptions and savings plans for 2018/19

Area of focus	Findings
Changes in year affecting the MTFP	<p>Reduction in budget pressures</p> <p>The Council has undertaken work to recalculate the projected budget pressures anticipated for 2019/20. The impact of this has been to reduce the savings requirement from 2019/20. The changes to reduce spending pressures focus on behaviours and culture in key service areas are intended to work within current processes – with the objective of ensuring that staff achieve better value (e.g. in procuring adult care packages). The Council assessed that the original MTFP demand assumptions were based on historic trends that reflected a lack of control over spending, resulting in a ‘gold plated’ service that it was no longer possible to accommodate. Other changes to assumptions, include the removal of budgeted costs associated with negative Revenue Support Grant (RSG) contributions. These net effect of these changes to financial planning assumptions, means that the recurrent savings required drops from £136m to £85m. There remains a risk that behaviours and culture in key areas may not be able to be changed to the extent required to reduce financial pressures to the full extent projected for 2019/20.</p> <p>Additional in-year savings</p> <p>Additional measures have been taken to strengthen the financial position in 2018/19, and new budget envelopes have been issued to services to achieve an additional £40m of in year savings by year end. These additional savings are intended to avoid the use of reserves (£21m planned in 2018/19) and to cover the unplanned net budget pressures arising in year of £15m, enabling a modest surplus to be transferred to reserves at year end. The £15m relates to pressures of SEND that should be funded through the High Needs Block of the DSG, but is not. The Council is responding to this to ensure that it does not erode its financial standing. A significant proportion of the additional savings are non-recurrent one off savings, and this is acknowledged and has been factored into the savings requirement for 2019/20 and 2020/21. As at September 2018 (Month 6) directorates have to deliver management actions to the value of £32.2m that are currently outstanding in order to achieve the reduced budget envelope. The savings in this category include measures such as not recruiting to vacant posts or making current vacancies permanent, cost avoidance, releasing budget for anticipated pressures that have not materialised, deferring planned expenditure and bringing forward planned savings.</p> <p>A key objective of this exercise is to protect Council reserves, effectively preserving them for use in dealing with additional financial pressures arising in 2019/20 (e.g. to cover any shortfall on savings from transformation in that year). The additional savings introduced for 2018/19 are a significant challenge for the Council. The Council are aware that this is a significant challenge and very high risk with only 6 months in which to deliver these savings. However, even if only part of these savings were to be delivered it will have a beneficial effect of covering the projected budget overspend and reducing the amount of reserves that need to be drawn down from that originally planned in the MTFP.</p> <p>Deep dives and revision of savings plans</p> <p>In response to Cabinet concerns about the robustness of transformational savings included in the MTFP, the Council undertook a number of deep dive exercises to assess the robustness of savings plans and the underlying business cases. These deep dives exercises have helped to remove some of the blockers and some rationalisation of the schemes has taken place.</p>

Detailed findings (Cont'd)

1. The MTFP and the key assumptions and savings plans for 2018/19

Area of focus	Findings
Review of budget outturn reports for 2018/19 to date.	As at the end of month 6 the Council is forecasting a net overspend of £10.3m on budget for 2018/19, a reduction of £1.5m compared to the previous month due to increased savings in Adult Social Care. The area forecasting the highest overspend is in Special Educational Needs and Disabilities (SEND). The Council is currently forecasting to deliver £2m above the planned £66m savings as set out in the MTFP, with approximately £56m achieved or on track. A breakeven position on the original MTFP remains achievable if the overspend can be mitigated by the £40m additional savings.

2. Transformation plan and projects 2019-2021

Overview of MTFP and savings plans 2019-21	The majority of the recurrent savings to be delivered, primarily in 2019/20 and 2020/21, are set out within 22 transformation business cases. The outline business cases have been subject to significant levels of review and challenge and are in the process of being developed into full business cases.
Development of business cases	<p>Members have approved in principle the outline business cases presented to them at the autumn away day, subject to the formal approval of the full business cases in November 2018. The business cases cover both transformational change as well as enabling schemes, on which other projects will depend (e.g. IT, and agile working) so there are inter-dependencies in the critical path and a risk of double counting that needs to be carefully managed.</p> <p>In terms of the timing, it is likely that a proportion of the business cases will involve changes to the services currently offered (e.g. in the thresholds for access to Social care) which may need to go through public consultation prior to inclusion in the budget – increasing the risks to delivery. We note that this process has already commenced following review by Cabinet on 30 October 2018.</p> <p>We are aware that the business cases we reviewed were scheduled to be fully scrutinised and validated by senior management prior to approval by Cabinet, but that this had not yet taken place at the time of our review. Our review of the business cases confirmed that at that stage further work was required to provide sufficiently robust and deliverable plans to ensure delivery. We note that the business cases were subsequently reviewed by Cabinet on 30 October 2018. We will continue to monitor progress in finalising and delivering the business cases as part of our ongoing VfM work.</p>

Detailed findings (Cont'd)

2. Transformation plan and projects 2019-2021

Area of focus	Findings
Scrutiny and governance structure to review and approve business cases	<p>The Council recognise that it has a significant challenge ahead and to ensure delivery has introduced new transformation governance arrangements.</p> <p>Transformation have been significantly strengthened, and will be overseen by a Joint Change Board which includes Cabinet Members. This will be supported by a Transformation Strategy Board where executive directors will meet monthly to track benefits realisation, and weekly monitoring carried out by directorate teams supported by finance business partners. This structure should enable Members and the Corporate Leadership Team to oversee and approve business cases, ensure that barriers and are managed and to ensure issues and slippage are identified and actioned on a timely basis.</p> <p>All directorate business cases will be subject to challenge meetings that will include the Chief Executive and Director of Finance to help ensure that they are robust.</p> <p>Additional support has been procured externally to support the process and bring experience of similar transformation undertaken at other Councils.</p> <p>Members have been fully informed and through an away-day briefed on the challenge ahead and outline business cases have been presented and approved in principle.</p> <p>Budget managers (exec directors and heads of service) are accountable for delivering within budget envelopes, backed up by a signed Budget Accountability Statement.</p>
Robustness of projected financial savings	<p>Until the business cases have been finalised, reviewed, subject to consultation and approved by members, it is not possible to conclude on the likelihood of delivery. However, initial review of the outline business cases indicates that significant progress is being made and that a robust process of review and challenge is on place, that should help ensure that the final plans are deliverable.</p> <p>There remains a risk that the extent and scale of change required to deliver £85m of savings in 2019/20 is subject to the risk of delay or elements of savings being eroded as a result of the review and finalisation process.</p>
Consideration of non-financial impact	<p>We note that the outline business cases do address non-financial benefits and risks. However, we note that due to the need for the Council to act quickly to address the financial position, a number of savings initiatives are being developed in parallel – specifically, the original MTFP schemes, the additional in year savings, the transformation projects (both enabling and service related), the change in behaviours underpinning the reduction in cost pressures. There is a risk that these measures could become difficult to co-ordinate, savings could be duplicated and short term savings measures could undermine longer term development plans.</p> <p>We note that consideration has been given to the impact of transformation on services, within the business cases. The Council will need to assure itself that risks associated with service delivery and the impact on Surrey communities is fully understood and appropriately managed - particularly in regard to Adult and Children's Social care.</p>

Detailed findings (Cont'd)

	Area of focus	Findings
2. Transformation plan and projects 2019-2021	Progress made in developing and delivering business cases	As noted above, significant progress has been made in developing the transformation business cases. However, at the time of review they have yet to be fully reviewed and tested through the governance process and had yet to be finalised and approved. We note that Cabinet reviewed the business cases on 30 October and final review and approval is scheduled for 13 November 2018.
3. Other sources of evidence	Consideration of the CIPFA report	<p>The review by CIPFA into Surrey County Council Finance concluded that there was an urgency in the need to build financial resilience in Surrey County Council. It concluded that tackling the financial difficulties that Surrey County Council involves addressing the following five key points:</p> <ul style="list-style-type: none"> • Securing the commitment of everyone connected to Surrey County Council to resolving the financial difficulties faced. • Re-structuring the Finance team so that it has a more dynamic, central role in driving change across the organisation. • Planning now for the known uncertainties in the estimates for 2018-19. • Implementing the structural changes needed to maintain a balanced budget in 2019-20 and 2020-21. • Building a more robust approach to business management so that the changes made can be sustained. <p>CIPFA stated that the Council no longer had the option of putting off change in the hope that circumstances might change. It noted that a series of transformative projects are being developed and the final business cases were to be presented to Cabinet in October 2018. The report's authors concluded that the plans are still at too early a stage, however, for CIPFA to assess the likelihood that they will deliver the efficiency savings required in 2019-20 and 2020-21. This remains the case at the point of this review, although we note the progress that has been made since July to finalise the business cases.</p> <p>In regard to the finance team's ability to deliver the change at the pace required it concluded that there were a number of strengths in Surrey's Finance team. The team was experienced and understands the work of the Council very well. CIPFA also recognised that the financial information produced needed to improve to assist decision making and financial monitoring.</p> <p>It also noted that the Finance team operated in a largely 'traditional' role, however, and the existing roles of the senior leadership team need to be more clearly defined. The blurring of roles and responsibilities between the Finance team and service directorates does not facilitate a mature working environment. We note that since this report, the Council has taken steps to clarify budget responsibility and accountability, with the onus on service budget holders to drive change. It is too early for these changes to have fully embedded and for us to assess the impact of this, however we note the prompt action taken by the Council in this regard.</p>

Appendix 1 – Audit Opinion as issued

The wording below is from the audit opinion issued on 28 September 2018 following completion of the VFM work for 2017/18. It also includes the audit opinion on the Council's financial statements for the year, which was originally issued on 31 July 2018.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the financial statements:
give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
had been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the pension fund financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
had been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Appendix 1 – Audit Opinion (Cont'd)

Basis for adverse conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Children's Services

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

Page 220 This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Sustainable resource deployment

The Authority is drawing heavily on its reserves to balance its annual budgets and cannot set a sustainable budget with sufficient capacity to absorb emerging cost pressures with its current levels of income and funding.

The Authority used £11 million of its usable reserves to balance its budget in 2017/18 and, at 31 March 2018 usable reserves, stood at £102 million. The Authority managed its financial position in year by implementing short term spending cuts, which allowed it to deliver a £1.3 million underspend for the year against budget.

The Authority engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function. CIPFA reported in July 2018 that the Authority will not have sufficient reserves to meet its expected budget gap in 2019/20 unless it acts now. The report also stated that unexpected increases in demand and a failure to deliver a significant proportion of the planned savings in 2017/18 undermined the credibility of the financial estimates reported in-year and necessitated short term spending cuts that can adversely impact on services.

The Authority's current medium term financial plan for 2018 to 2021 requires it to deliver £250 million of savings over three years, with £66 million required in 2018/19. The Council also plans to use a further £21 million of reserves to balance the budget. The CIPFA report highlighted a lack of granularity in some of the estimated pressures and changes facing the Authority, and considerable uncertainties over the delivery of a number of the planned savings.

These matters are evidence of weaknesses in proper arrangements for securing sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Appendix 1 – Audit Opinion (Cont'd)

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Delayed Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until:
we had completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources;
we had on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts; and
we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

We have now completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

No matters have come to our attention since 31 July 2018 that would have a material impact on the financial statements on which we gave an unqualified opinion.

Appendix 1 – Audit Opinion (Cont'd)

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We are satisfied that this outstanding matter does not have a material effect on the financial statements.

Ciaran McLaughlin

Ciaran McLaughlin
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square
London
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28 September 2018



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