

## Notice of Meeting

# Audit & Governance Committee

**Date & time**

Monday, 29 July  
2019  
at 10.30 am

**Place**

Committee Room C,  
County Hall, Kingston  
upon Thames, Surrey  
KT1 2DN

**Contact**

Amelia Christopher  
Room 122, County Hall  
Tel 0208 213 2838

[amelia.christopher@surreycc.gov.uk](mailto:amelia.christopher@surreycc.gov.uk)

**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 Amelia Christopher on 0208 213 2838.**

**Members**

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

**Ex Officio:**

Mr Tim Oliver (Leader of the Council), Mr Colin Kemp (Deputy Leader), Mr Tony Samuels (Chairman of the Council) and Mrs Helyn Clack (Vice-Chairman of the Council)

## **AGENDA**

### **1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

### **2 MINUTES OF THE PREVIOUS MEETING - 20 MAY 2019**

(Pages 1  
- 4)

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 (23 July 2019).
2. The deadline for public questions is seven days before the meeting (22 July 2019).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

### **5 RECOMMENDATIONS TRACKER**

(Pages 5  
- 8)

To review the Committee's recommendations tracker.

### **6 STATEMENT OF ACCOUNTS 2018/19**

(Pages 9  
- 12)

To inform the Committee of the result of the external audit of the council's 2018/19 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Executive Director of Resources.

Annexes: (to follow)

1. 2018/19 Statement of Accounts
2. 2018/19 Audit Findings Report
3. Executive Director of Resources' letter of representation.

**7 INTERNAL AUDIT & COUNTER FRAUD ANNUAL REPORT AND OPINION 2018-19** (Pages 13 - 42)

The purpose of this report is to give an opinion on the adequacy of Surrey County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2018 to 31 March 2019 in accordance with the Internal Audit Strategy for 2018/19.

**8 SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2018/19 AND GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT** (Pages 43 - 88)

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2019, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) expects to issue an unqualified opinion on the accounts.

Grant Thornton, as the Council's external auditor, has completed its audit and the Pension Fund financial statements are presented to this Committee to be approved prior to publication.

Annexes: to follow

2. Audit report 2018/19
3. Draft letter of representation.

**9 DATE OF NEXT MEETING**

The next meeting of Audit & Governance Committee will be on 26 September 2019.

**Joanna Killian**  
**Chief Executive**  
Published: 19 July 2019

### **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 20 May 2019 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

**Elected Members:**

\*= In attendance

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

**Substitute Members:**

Mr Nick Darby\*

**19/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Stephen Spence and Will Forster. Nick Darby acted as a substitute for Stephen Spence.

**20/19 MINUTES OF THE PREVIOUS MEETING: 8 APRIL 2019 [Item 2]**

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

**21/19 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**22/19 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**23/19 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]**

**Witnesses:**

David John, Audit Manager

**Key points raised during the discussion:**

The Audit Manager provided a verbal update on the item A16/18 on police action, the Committee were informed that the Crown Prosecution Service have charged the individual and the case is proceeding to court after a delay.

**Action/Further information to note:**

None.

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**Resolved:**

That the Committee noted the report.

**24/19 CODE OF CORPORATE GOVERNANCE [Item 7]****Witnesses:**

Cath Edwards, Service Improvement and Risk Manager

**Key points raised during the discussion:**

The Service Improvement and Risk Manager informed Members that the report provided an update on the Council's Code of Corporate Governance and that it was an annual document in which the core principles of governance remain fundamentally the same. It was noted that the Code of Corporate Governance would be presented to the County Council for inclusion in the Constitution.

**Actions/ further information to be provided:**

None.

**Resolved:**

That the Committee approved the updated report and commended it to the County Council for inclusion into the Constitution.

**25/19 2018/19 DRAFT ANNUAL GOVERNANCE STATEMENT [Item 6]****Witnesses:**

Joanna Killian, Chief Executive

**Key points raised during the discussion:**

1. The Chief Executive introduced the draft Annual Governance Statement which summarised the Council's governance arrangements for the financial year ending 31 March 2019. She made the following points:
  - That the report provided a positive reflection of the Council's governance arrangements for future years, with mechanisms put in place for effective governance.
  - That the organisational culture had already undergone a process of transformation and noted the progression; however, wholesale change to this culture will take time and there will be periods of difficulty.
  - A key area of progression included working with partners more constructively and in an open manner, ensuring good governance for those employed in the Council's services and a measure of the success of the Council's governance would come from the residents.

2. Members questioned how improvements in governance will be measured with reference to recruitment in Children's Services. The Chief Executive explained that this would happen by using hard indicators including the Ofsted Priority Action Board to deliver the Council's Children Improvement Plan.
3. The Committee expressed concern over the challenges to a sound system of governance within the South East due to a high cost of living for Surrey employees. Although expensive accommodation is an issue, the Chief Executive stated that good technical supervision, manageable case-loads and good managerial support were fundamental to governance. The Council would ensure a safeguard to key services with the launching of the new Surrey Children's Services Academy with strong feedback from participants. The Chief Executive also noted the importance of retention of key workers within the National Health Service by analysing exit interviews to understand why some chose to leave the organisation.

**Actions/ further information to be provided:**

A6/19 - The Chief Executive agreed to provide a document which summarised the Council's yearly achievements. This would be a concise and accessible document for councillors to provide to their residents.

**Resolved:**

The Committee reviewed the draft report and were satisfied that the governance arrangements were represented correctly; and

That the Committee commended the draft Annual Governance Statement to the Chief Executive and the Leader of the Council to be signed off before publication into the Council's Statement of Accounts for 2018/19.

**26/19 2018/19 TREASURY MANAGEMENT OUTTURN REPORT [Item 8]**

**Witnesses:**

Kevin Kilburn, Strategic Finance Manager - Corporate

**Key points raised during the discussion:**

1. The Committee were asked by the Chairman of the Committee whether they were comfortable with the report and both Members and Officers expressed their satisfaction.
2. The Strategic Finance Manager - Corporate, introduced the report and provided background information to the uncertainty in finance globally with reference to the US-China trading tensions and the volatility with the UK's withdrawal from Europe as noted in Annex 1. The Council's Treasury team would continue to monitor the impact on interest rates as this affects the Council at a more local level.
3. Referring specifically to the Risk Reference 2 (Financial) in Annex 2 on Interest Rate Risk, the Strategic Finance Manager - Corporate stated that the Council's strategy of short term borrowing provided a financial

saving as the average rate of interest is 0.84%, compared to the 2.65% interest rate if long term borrowing had been undertaken over a 25 year period. It was noted that this however would mean that the Council would not get returns as high as other councils due to short term investing, but the policy of low investment levels ensures the Council is able to ensure borrowing at an affordable level.

**Actions/ further information to be provided:**

None.

**Resolved:**

The Committee noted the report; and

The Committee agreed to adopt the Treasury Management Risk Register, attached as Annex 2.

**27/19 DATE OF NEXT MEETING [Item 9]**

The date of the meeting was noted as 29 July 2019.

**Meeting ended at: 11.00am**

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**Chairman**





Audit & Governance Committee  
 29 July 2019

## 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.

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**REPORT CONTACT:** Amelia Christopher, Democratic Services Assistant  
 amelia.christopher@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
A2/18	22/01/2018	Business Continuity	To discuss timings for future reports once training for Members has taken place on Business Continuity.	Chairman	<p>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.</p> <p>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.</p>
A16/18	26/07/18 20/05/19	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	<p>27/09/2018 - the Audit Manager confirmed that he had followed up on the police investigation but had not yet received a full response.</p> <p>12/12/18 - officers confirmed there were ongoing discussions with the Police on this matter and that the situation would continue to be monitored.</p> <p>20/05/19 - the Audit Manager updated the Committee on police investigation: the individual has been charged.</p>
A1/19	07/02/19	Treasury Management Strategy 2019/20	To circulate benchmarking data from similar two-tier local authorities to compare interest income.	Finance Manager	<p>Information to be circulated following the end of the financial year 2018/19.</p> <p>20/05/19- the Strategic Finance Manager- Corporate to provide a verbal update to the Committee in July.</p> <p>July 2019- The benchmarking data was sent to the Members of the Committee.</p>

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A5/19	07/02/19	Internal Strategy and Annual Audit Plan 2019/20	The Committee requested that the Internal Audit report on the review of PAMS income 2018/19 be considered at the appropriate select committee.	Democratic Services Assistant	Item to be added to the relevant Select Committee's forward plan- Resources and Performance to consider this by the end of 2019.
A6/19	20/05/2019	Document on Yearly Achievements	The Chief Executive agreed to create a document detailing the Council's yearly achievements, accessible to councillors and residents.	Chief Executive	The Chief Executive to report.



**Audit & Governance Committee  
29 July 2019**

**Statement of Accounts 2018/19**

**Purpose of the report:**

To inform the Committee of the result of the external audit of the council's 2018/19 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Executive Director of Resources.

**Recommendations:**

It is recommended that the Committee:

1. Approve the 2018/19 Statement of Accounts, as attached in Annex 1, for publication on the council's website and in a limited number of hard copies;
2. Consider the contents of the 2018/19 Audit Findings Report in Annex 2;
3. Agree the officer response to recommendations of the external auditor;
4. Note the Executive Director of Resources' letter of representation, which is attached in Annex 3;
5. Determine if any issues in the Audit Findings Report should be referred to the Cabinet.
6. Note the revised Annual Governance Statement, as approved by Cabinet on 17 July.

**Introduction:**

7. The Executive Director of Resources has approved the statement of accounts for 2018/19 as presenting a true and fair view of the county council's financial position as at the 31 March 2019 and its income and expenditure for the year. The accounts are attached at Annex 1 to this report for Member debate and approval.
8. The auditor has provided a commentary and recommendations on the statement of accounts in their Audit Findings Report (attached as Annex 2).
9. The auditor anticipates issuing an unqualified opinion on the financial statements.

### **The Statement of Accounts 2018/19**

10. The Local Audit and Accountability Act 2014 requires the Statement of Accounts for 2018/19 to be published by 31 July, and that they are approved, prior to this date, by a non-executive committee of the local authority.
11. The s151 officer is responsible for the preparation of Surrey County Council's single entity statement of accounts, the Surrey County Council group accounts, the pension fund statement of accounts and the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).
12. The Code is a very prescriptive document, and determines not only the accounting policies to follow, but also the form and content of the statement of accounts. The Code is based on International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board. Local authorities have a legal obligation to follow "proper accounting practice", this therefore means that compliance is mandatory.
13. Any significant departure from The Code will normally result in a qualified audit opinion.

### **Accounting Changes 2018/19**

14. The 2018/19 Code of Practice on Local Authority Accounting adopted IFRS9 – Financial instruments, which requires an assessment of likely impairment of loans and investments.
15. Annex 1 presents the 2018/19 Statement of Accounts. Draft accounts were produced and presented for audit by the end of May 2018.

### **2018/19 Audit Findings**

16. The Audit Findings Report summarises the findings of the 2018/19 audit, which is now nearing completion. It includes the messages arising from the audit of the statement of accounts and the results of the external auditor's work undertaken to assess the council's arrangements to secure value for money in the use of resources.
17. The external auditor's 2018/19 report is presented in Annex 2 and sets out a summary of the work carried out during the audit of the accounts, the conclusions reached and recommendations.
18. At the beginning of the audit the auditors produce an audit plan, which was reported to the Audit & Governance Committee in April 2019. The audit plan identified areas of significant risk of material misstatement. The audit findings report summarises the work completed in relation to these risk areas.
19. There are a small number of items still to be signed off by the auditors before the final opinion can be issued.

### **Conclusions:**

20. Following the changes included above, and the results of the audit, the accounts are now presented to this Committee for approval.

### **Financial and value for money implications**

21. There are no direct financial implications of this report, all financial implications in the accounts have been made in line with the Code of Practice and any impact on the 2018/19 budget has been considered in the outturn report to the Cabinet.

### **Equalities and Diversity Implications**

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

### **Risk Management Implications**

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

<b>Next steps:</b>
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24. The statement of accounts will be published in line with the statutory deadline. The only changes made to the published version will be presentational, with the accounts typeset into a booklet style. A small number of hard copies will be produced. However, a version of the statements will also be posted on the council's website, and again some of the formatting may change to ensure it complies with the council's accessibility standards.

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**Report contacts:** Kevin Kilburn, Strategic Finance Manager (Corporate)

**Contact Details:** kevin.kilburn@surreycc.gov.uk Tel: 020 8541 9207

### **Sources/background papers:**

2018/19 Financial Outturn Report – Cabinet 28 May 2019.

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19  
CIPFA

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# AUDIT & GOVERNANCE COMMITTEE

## 29 JULY 2019

### Internal Audit & Counter Fraud Annual Report and Opinion 2018-19

#### **SUMMARY AND PURPOSE:**

The purpose of this report is to give an opinion on the adequacy of Surrey County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2018 to 31 March 2019 in accordance with the Internal Audit Strategy for 2018/19.

#### **RECOMMENDATIONS:**

Members are asked to:

- (i) Note the work undertaken and the performance of Internal Audit in 2018-19 and the resultant annual opinion of the Chief Internal Auditor; and
- (ii) Determine whether there are any matters that the Committee wishes to draw to the attention of the Cabinet or full Council;
- (iii) Consider whether the Council's arrangements for internal audit have proved effective during 2018/19.

#### **BACKGROUND:**

1. All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.
2. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.
3. No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide partial assurance that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.
4. This opinion, and the evidence that underpins it, is further explained in the full Internal Audit Service's Annual Report and Opinion which forms Annex 1 of this report. The report highlights:
  - Key issues for the year, including a summary of all audit opinions provided;
  - Progress on implementation of high risk recommendations;
  - Key financial systems;
  - Other internal audit activity;
  - Anti-fraud and corruption.

5. A summary of the major findings from audit reviews completed during Quarter 4 of 2018/19 is included in Annex 2 (major findings from previous quarters have already been reported).
6. Finally, Section 6 of the annual report sets out details of internal audit performance for the year, including details of compliance against the relevant professional standards.

#### **INTRODUCTION:**

7. Following the repositioning of Internal Audit back into the Finance community and the wider Orbis partnership, the service has progressed to become a fully integrated internal audit team with East Sussex County Council and Brighton & Hove City Council.
8. During 2018/19 the Surrey County Council Internal Audit team has worked closely with the two partner internal audit teams to share best practice and align working practices, which has been facilitated by the implementation of a shared audit management system.
9. Collaborative working has led to changes in various aspects of Internal Audit practice and process, including revised audit report formats, revisions to the narrative of audit opinions, and more closely aligned committee reports between all partners. These have all been further embedded over the last twelve months. Within the structure there sits an Orbis Chief Internal Auditor, whilst Audit Managers have been appointed to the three sovereign authority teams and to the two specialist teams (ICT, and Counter Fraud).
10. During 2018/19 the Audit Manager has continued to undertake the following responsibilities within the Council to complement the work of Internal Audit:
  - Member of the Governance Panel; and
  - Member of the Risk Network.

The Chief Internal Auditor also undertakes additional responsibilities across all three partner organisations, but specifically at Surrey County Council this includes:

- Member of the Tier 3 management group; and
- Member of the Risk and Governance Board.

#### **IMPLICATIONS:**

11. Financial,  
Equalities,  
Risk management and value for money.
12. 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 Reporting and Escalation Policy.

#### **WHAT HAPPENS NEXT:**

11. The Chief Internal Auditor and Audit Manager will continue to update members on the progress of issues within this report that have not been fully concluded.

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**REPORT AUTHORS:** Russell Banks, Chief Internal Auditor  
David John, Audit Manager

**CONTACT DETAILS:** Tel: 01273 481447 or email: [Russell.Banks@eastsussex.gov.uk](mailto:Russell.Banks@eastsussex.gov.uk)

Tel: 0208 541 7762 or email: [david.john@surreycc.gov.uk](mailto:david.john@surreycc.gov.uk)

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# **INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/2019**



## **1. Internal Control and the Role of Internal Audit**

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

## **2. Delivery of the Internal Audit Plan**

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2018/19, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority. This has included responding to, and investigating, allegations of fraud and other irregularities.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit and Governance Committee as part of our periodic internal audit progress reports.

## **3. Audit Opinion**

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide partial assurance<sup>1</sup> that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

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<sup>1</sup> This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the council within a single year.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have resulted in a number of partial or minimal audit opinions being issued, some of which are potentially significant. Where the need for improvements in control have been identified, we have not always seen sufficient evidence that historically, management have taken appropriate remedial action in a timely manner. It is, however, apparent that significant effort is now being made by the organisation to strengthen governance, risk management and internal control, with major transformational programmes commenced during the year. Whilst these are still in development, with the impacts likely to begin materialising during 2019/20, there is evidence of a clear commitment from management and Members to secure improvement. The direction of travel is therefore positive and something which Internal Audit will monitor over the year ahead.

#### 4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

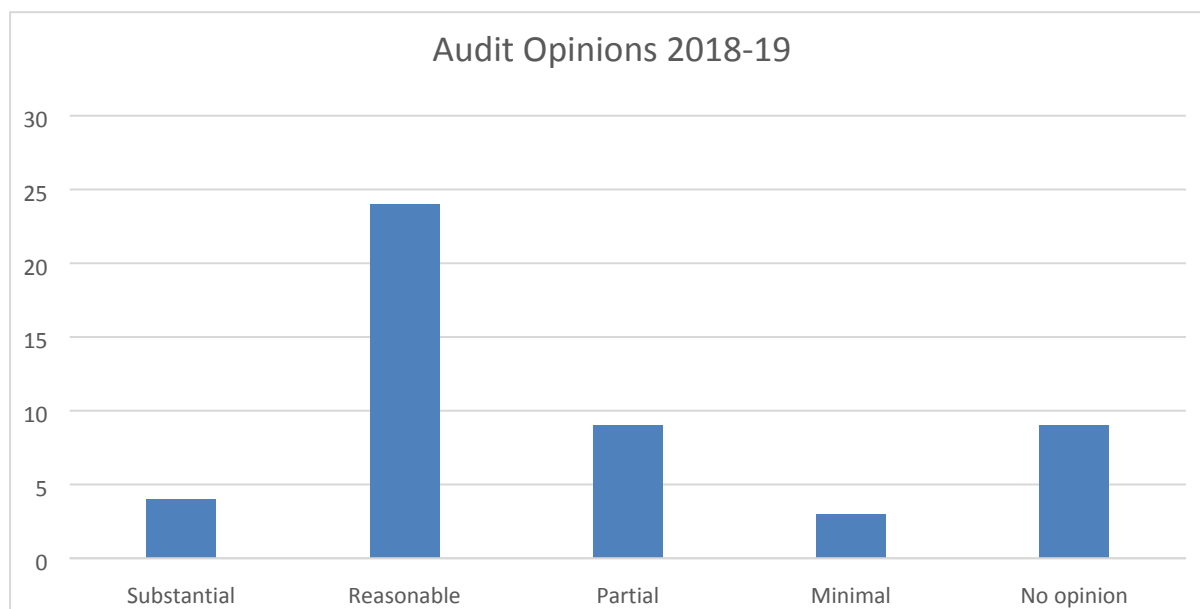
- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan; and
- Quality of the Internal Audit service's performance.

4.2 No limitations have been placed on the scope of Internal Audit during 2018/19. It should, however, be noted that very little internal audit activity was carried out during the year in relation to Surrey County Council schools, with the organisation placing reliance on the assurance arrangements provided as part of the Babcock 4S contract. Our internal audit opinion for 2018/19 therefore excludes the control environment within schools. In light of the termination of the Babcock 4S contract, our internal audit plan for 2019/20 includes work to examine the future assurance regime in relation to the county's schools and this will be used to inform our future schools audit strategy.

#### 5. Key Internal Audit Issues for 2018/19

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised during 2018/19 with standard audit opinions:



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Whilst the results of all audit work completed is reported to CLT and Audit and Governance Committee throughout the year, those reviews with minimal assurance have been summarised again below for completeness:

- Looked After Children Initial Health Assessments** – this review sought to provide assurance that all newly Looked After Children receive an Initial Health Assessment within the statutory timescales, given previously poor performance in this area against national targets. We have only been able to provide minimal assurance over the controls in operation because performance against target remained very low, with less than 20% of assessments undertaken within the statutory timescales.

We found regular delays at all key stages in the process, involving both Children's Services and the main provider. Performance management and reporting arrangements within this area were found to be weak and inefficient, diverting management attention away from addressing key issues.

All actions arising from the review were agreed with management who have been involved in discussions with the CCG and the main provider to improve performance. This includes a LEAN project to review processes, with plans to change the delivery model of assessments in order to speed up the system.



- **CFL Care Assessments** - this audit was commissioned by Chief Executive with a view to providing assurance over arrangements within Children's Services for carrying out care needs assessments, approving packages of care, commissioning and procurement of care, cost identification, forecasting and financial monitoring and the review of care packages. The review identified numerous and significant control weaknesses in each of the areas reviewed, the most serious of which resulted in:

- The financial sustainability of care packages not being robustly challenged or scrutinised;
- IT systems not operating effectively, leading to resource-intensive, inefficient workarounds, in some cases leading to data errors and overpayments; and
- A prevalence of inaccurate and unreliable service data, hindering financial monitoring and limiting the availability of meaningful management information.

The poor control environment in this area has ultimately impacted on the Council's ability to fulfil its statutory duties for SEND and as a corporate parent for looked after children. Whilst we were only able to give an opinion of minimal assurance, it was clear that the issues identified through our work had already been acknowledged by the service and significant resources allocated to ongoing process re-design and improvements through the Transformation Programme (see below). It is anticipated that the majority of risks will be addressed by this work and we will seek to provide assurance on this as part of a follow-up review due to be undertaken in quarter 2 of 2019/20.

- **Modified Fire Pension Scheme (2006) for Retained Firefighters** – this review was undertaken following the discovery that a required 'Options Exercise' for Surrey's Retained Firefighters (RFF) to join the Modified Fire Pension Scheme did not take place in the timeframe prescribed by the DCLG. Historically RFF's had been precluded from membership of the 1992 Scheme but, following legal challenge, were entitled to join the Modified 2006 Scheme, if they chose to do so, by expressing a preference prior to September 2015 (the end of the DCLG timeframe).

In conducting our review, we found an absence of effective governance, management oversight, and personal accountabilities by a number of officers within the Council, which resulted in the options exercise not being started, let alone completed, within the timescales stipulated by the DCLG. As a result, we have only been able to provide a minimal assurance opinion and have highlighted the need for the Council to seek legal and financial support to fully understand any possible future liabilities as a result of RFF being denied the opportunity of joining the scheme at the time. Further internal audit work examining governance and internal control arrangements in relation to the Pensions Service will be carried out as part of the 2019/20 audit plan.

5.4 Included with the above graph are a total of 4 reviews where we have revisited areas which had previously received lower levels of assurance. For 2 of these (Highways Contract

Lot 5, and DOLS in Adult Social Care), we have been able to issue revised, improved opinions of reasonable assurance. However, of two follow-ups in Children's Services, one (NMI Placements) remained a partial assurance after follow-up, and the other (Unaccompanied Asylum Seeking Children), was reduced from reasonable to partial assurance.

5.5 As well as conducting formal follow up reviews, we have in place arrangements to track the implementation of all high risk audit recommendations issued during the year. As at 31 March 2019, of the 44 high risk recommendations issued and due by the end of the 2018/19, we are able to report that 90% had been implemented within the agreed timescales. We will continue to monitor implementation of outstanding actions and will escalate to senior management and Members where insufficient progress is made.

5.6 At the time of producing this report, a total of 16 planned reviews remained in progress, all of which will be completed during the quarter 1 of 2019/20. The finalisation of these reports will result in 100% completion of the 2018/19 internal audit plan.

### Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. Of those completed during 2018/19, all of these have resulted in either full or substantial assurance being provided over the control environment.

### Other Significant Organisational Issues

5.8 Surrey County Council continues to face a number of significant challenges, not least the need to improve both services to children and the overall financial management of the Council, as highlighted in recent Ofsted and CIPFA reports respectively. Although these reports highlight a range of serious shortcomings within organisation, some of which have also been identified within internal audit activities, it is clear from the new leadership arrangements that there is a strong commitment from the organisation to address these issues. In particular, development of:

- An updated community vision and organisational strategy;
- A Council-wide transformation programme to reform almost all services across the Authority;
- A finance improvement programme addressing the actions arising from the CIPFA report, including strengthening financial management capability across the organisation and ensuring the Council operates within available resources; and
- Initiatives to review organisational culture to better support the achievement of the new vision and strategy.

5.9 During 2018/19, internal audit has sought to provide advice, support and independent challenge in relation to these and other improvement initiatives, much of which will continue into future years. To date we have:

- Commenced ongoing work to specifically support the Council wide transformation programme, based a series of focus areas agreed with management. These include overall governance arrangements, project management, risk management, data quality and mechanisms for ensuring appropriate internal control arrangements are maintained as a result of service changes;
- Supported the creation of the new Risk Governance Group, formed of the Chief Internal Auditor and key statutory officers, including the Chief Executive, Section 151 Officer and Monitoring Officer. The group meets periodically to consider current risk and governance issues facing the authority with a view to ensuring appropriate management / response arrangements are in place;
- Provided advice and input into the development of revised strategic risk management arrangements for the Council, including support for the production of a refreshed Leadership Risk Register.

### Anti-Fraud and Corruption

5.11 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. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.

5.12 During 2018/19, we logged 27 allegations under the Council's Anti-Fraud and Corruption Strategy, in all cases identified through the Council's confidential reporting hotline or notifications from departments. As a result of the allegations, 8 investigations were undertaken by Internal Audit, with the remainder being referred to local management, another local authority or assessed as requiring no further action. The following provides a summary of the investigation activity undertaken by Internal Audit in the last 12 months:

- A referral was made to Internal Audit relating to a senior member of staff who had failed to follow proper policy and procedures when claiming a car user lump sum payment. Whilst there is no suggestion that the officer concerned was not entitled to the payments received, key controls had clearly been bypassed. The officer concerned was reprimanded for their actions and the process for claiming these allowances is currently being strengthened to help avoid future repetition.
- We concluded work on the investigation associated with the apparent falsification/forgery of signatures on Council documents. Whilst the investigation was not able to definitively identify who was responsible, evidence of unacceptable

performance was found within the service resulting in the resignation of one member of staff in advance of a disciplinary hearing.

- We provided support and advice to management during their investigation of a case of misconduct by a member of staff who had defaced Council records. Internal Audit support was given through interview and analysis of hand-writing samples from officers. Appropriate disciplinary action was taken as a result.
- We provided support and guidance to management in investigating a whistleblowing allegation associated with a member of staff not working appropriate hours. This was not substantiated and there was no case of misconduct to answer.
- Allegations of corruption and misconduct in a procurement exercise were made via an internal referral. An extensive audit was undertaken which found no evidence of fraud or misconduct by individual officers. Weaknesses across the entire procurement exercise were, however, identified and appropriate actions to address these were agreed with management.
- A major investigation was undertaken at a maintained school associated with anomalies in the working and accounting practices of the school business manager. Internal Audit support with preliminary investigations subsequently led to a referral to the police, with whom the case is currently rests. We will continue to support this as the case progresses.
- A significant investigation was undertaken at a maintained special school when allegations of financial impropriety were received. We found that there were poor controls in place around the use of petty cash and the banking of income. In addition, the investigation identified that the headteacher failed to adequately manage her conflict of interest at the school and acted without transparency. The headteacher was dismissed following additional safeguarding and OFSTED inspections.
- We have also undertaken ad hoc work providing data analytics support to Early Years to identify potential duplicate funding of nursery places. The findings have been shared with the service and improvements identified to improve the administration of nursery funding.
- Two further allegations remain open at the time of writing this report.

5.13 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.14 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. During 2018/19, this has also involved the review and alignment of policies and procedures to ensure the Counter Fraud Team deliver a consistent standard of service across the Orbis partners. Progress over the last 12 months is outlined below:

Priority	Progress to date
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<b>Reactive investigations</b>	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 procedures for recording investigations. During the 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the counter fraud team and sovereign audit teams supported by advice and direction from the counter fraud team.
<b>NFI Exercise (National Fraud Initiative)</b>	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. Results from the matching exercise were received in Spring 2019 and the counter fraud team is liaising with partner authorities to review, prioritise and investigate flagged matches.
<b>Counter Fraud Policies</b>	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 is reviewing the sovereign strategies and aligning 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.
<b>Fraud Risk Assessments</b>	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
<b>Fraud Response Plans</b>	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 have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics.
<b>Fraud Awareness</b>	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.

5.15 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of

this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs; the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud.

### Amendments to the Audit Plan

5.16 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- Car User Lump Sum Allowance systems review
- ASC & CFL Care Assessments – Internal Control Review
- Highways Contract (Lot 5) follow-up
- Orbis Customer Access Portal
- 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
- Rights Of Way

5.17 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- 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
- Officer Expenses
- Street Lighting PFI
- Public Health Commissioning.

## 6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2018/19, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

### PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self assessment in 2019:

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme
- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

### Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 Two service targets were, however, assessed as red at year-end, relating to customer satisfaction questionnaire results (71% against a target of 90%) and implementation of agreed management actions (90% against a target of 95%). With regards to the former, we received very few survey responses in-year, so the receipt of two less than positive results

for one audit significantly impacted on the final results. The issues raised in these surveys are being explored with management with a view to ensuring any necessary lessons are learned.

6.6 In respect of the implementation of agreed management actions indicator, outstanding issues relating to the audit of Pensions Administration specifically led to this indicator failing to hit the target. Although verbal assurances were received in 2017/18 to suggest progress was on track for four previously agreed high priority actions, a new audit in 2018/19 identified that this was not the case and as a result the indicator was revised to show them as still relevant and requiring implementation. This latest audit was issued in early 2019/20 and will therefore be covered within our quarter 1 progress report.

6.7 Significantly, we have completed 93.3% of the 2018/19 audit plan, exceeding our target of 90%. As reported in paragraph 5.6 above, a number of outstanding reviews were nearing completion at year end, with all reports due to be finalised early in quarter 1 of 2019/20.

6.8 Internal Audit will continue to liaise with the Council's external auditors (Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.9 In addition to this annual summary, CLT and the Audit and Governance Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.



## Appendix A

## Internal Audit Performance Indicators 2018/19

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 & Governance Committee on 12 April 2018.
	Annual Audit Report and Opinion	By end July	G	Approved by Audit & Governance Committee on 29 July 2018.
	Customer Satisfaction Levels	90% satisfied	R	71% (very low levels of response from management have meant that the responses on one particular audit has had a significant impact on this indicator).
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	93.3%.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Last independent external assessment awarded highest level of conformance. Confirmed in most recent self assessment.
	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	R	90%
Our staff	Professionally Qualified/Accredited	80%	G	87%

## Summary of Opinions for Internal Audit Reports issued during 2018/19

### **Substantial Assurance:**

*(Explanation of assurance levels provided at the bottom of this document)*

<b>Audit Title</b>	<b>Department</b>
Treasury Management	Finance
Better Care Fund	ASC
Surrey Local Assistance Scheme	Business Ops
Rights Of Way	Environment

### **Reasonable Assurance:**

<b>Audit Title</b>	<b>Department</b>
Capital Expenditure Monitoring	Finance
Revenue Budgetary Control	Finance
Pension Fund Investments	Finance
SAP Application Controls	ICT
General Ledger	Finance
Procure To Pay (17/18)	Finance
Revenue Budgetary Control (17/18)	Finance
Payroll (17/18)	Finance
Apprenticeship Levy	HR
Direct Payments (Surplus Balances)	ASC
Purchase Cards	Business Ops
Members Expenses	L&DS
Information Governance in Schools	Schools & Learning
Occupational Health	HR
Procurement Due Diligence	Procurement
Disaster Recovery	ICT
Liquidlogic Implementation	ASC
Social Care Debt	ASC
DOLS follow-up audit	ASC
Care Assessments Process in Adults	ASC
Contact Bank Supervisors (expenses)	Children's Svs
Better Care Fund Schemes	ASC
Traffic Signals Management	Highways
Lot 5 follow-up	Highways

### **Partial Assurance:**

<b>Audit Title</b>	<b>Department</b>
Cultural Compliance (Business Operations)	Business Ops
Emergency Planning and Response	Community Protection
PAMS Income	Property

Employees Expenses	Business Ops
CSF Quality Assurance	Children's Svs
Unaccompanied Asylum Seeking Children follow-up	Children's Svs
CFL Payment Cards	Children's Svs
ACULS	Business Ops
Orbis Budget Management	Finance

**Minimal Assurance:**

<b>Audit Title</b>	<b>Department</b>
Looked After Children Initial Health Assessments	Children's Svs
Care Assessments Process in Children's Services	Children's Svs
Modified Firefighters Pension Scheme (2006)	Business Ops

**Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):**

<b>Audit Title</b>	<b>Department</b>
Sport England grant certification	Finance
Pothole Action Fund grant certification	Highways
Bus Subsidy grant certification	Highways
Troubled Families grant certification	Children's Svs
Interreg Europe – Urban Links To Landscape grant certification	Economic Growth
Interreg Europe – DigiTourism grant certification	Economic Growth
Carbon Reduction Credits / Greenhouse Gases certification	Environment
PREVENT (position statement)	Children's Svs
Transformation Programme (position statement 1)	Corporate

### Audit Opinions and Definitions

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

## Audits Completed in Quarter 4 (January to March 2019)

### Deprivation of Liberty Standards (DoLS) – Follow Up

Deprivation of Liberty Safeguards (DoLS) are a provision of the Mental Capacity Act implemented in 2009 intended to ensure individuals who lack the mental capacity to consent to care or treatment do not have their freedom inappropriately restricted.

Our audit of November 2017 identified three key control weaknesses in this area, one of them being of high priority, and gave an opinion of Partial Assurance. This follow-up audit was scheduled for 2018-19 to assess progress made by management to improve on internal control processes.

Since the previous audit there is evidence of greater scrutiny and oversight of DOLS provided by senior management and Members. In addition, the backlog of completed assessments awaiting authorisation had been successfully cleared by January 2018 and the service is now keeping pace with new claims requiring priority assessment.

Overall, given the improvement in control evidenced during this audit, we were able to raise the level of assurance given to that of **Reasonable Assurance**.

### CFL Care Assessments

This audit was commissioned by Chief Executive as an additional review in-year, with a view to providing assurance over the following key processes in Children's Services:

- Care needs assessments and approval of packages of care;
- Commissioning and procurement of care;
- Cost identification, forecasting, and financial monitoring; and
- Review of care packages.

The identified numerous and significant control weaknesses in each of the areas reviewed, led us to agree 30 actions with the service, 27 of them being of high priority. Key findings in particular included:

- The absence of a clear set of procedures and process maps, which contributed to inconsistent practices and varied understanding of expectations on care staff;
- Weaknesses in care package approval processes such that these inconsistencies, and the financial sustainability of care packages, are not being robustly challenged or scrutinised;

- Lack of corporate intelligence for historical IT procurement due to the absence of supporting documents and staff turnover;
- A failure to fully implement IT systems effectively, leading to resource-intensive, inefficient workarounds;
- A prevalence of inaccurate and unreliable service data, which hinders financial monitoring, precludes the availability of meaningful management information, and prevents the council from fulfilling its statutory duties for SEND or as a corporate parent for LAC;
- The existence of manual finance processes that are inefficient, ineffective, and have almost certainly led to data errors and overpayments; and
- Despite the opportunities for shared learning arising from the Orbis partnership, the service has not made full use of peer support, such as the outcomes from the LAC peer review carried out by ESCC within the last year. Similarly, the council has not engaged with ESCC regarding their purchase of a Liquidlogic SEND product, which is currently being implemented.

As a result of these findings, we were only able to give an opinion of **Minimal Assurance**.

The issues identified in this report had already been acknowledged by the service and significant resources allocated to ongoing process re-design and improvements through the Transformation Programme. It is anticipated that the majority of risks will be addressed by this work and Internal Audit will undertake a follow-up review in quarter 2 of 2019/20 to review progress made against agreed actions.

### **Direct Payments (Surplus Balances)**

Direct payments are monetary payments made to individuals to meet some or all of their eligible care and support needs, providing them with more independence, choice and control.

In September 2017, a Specialist Direct Payment Team (SDPT) was created to manage pre-paid accounts on behalf of clients who require additional support managing their direct payments. This represented a transfer of responsibility of 516 client accounts from a third party provider, the Surrey Independent Living Council (SILC), to a new in-house team.

Surplus balances occur on direct payment accounts when clients do not spend the monies allocated to them to meet their care needs, which may be an indicator that an inappropriate package of care is in place or that care needs have changed.

We identified that surplus balances that have accumulated in client accounts are now readily identifiable from reconciliations performed by the SDPT, with significant surpluses reclaimed using computer software. Assessors have subsequently been notified of instances where surpluses have been reclaimed in order to re-review the packages of care in place and prevent repeat surpluses occurring.

We also identified evidence of comprehensive guidance available to staff and effective oversight through the reporting of significant surpluses to senior management. New financial processes are due to be added to the guidance notes to facilitate consistency in practice and measure performance.

Some opportunities for improvement have been identified, including the opportunity to maximise the functionality of existing computer software and improve the feedback process to assessors to prevent surplus balances recurring. Overall, however, we were able to give an opinion of **Reasonable Assurance** for this area.

### **Modified Fire Pension Scheme (2006) for Retained Firefighters**

This was a special review undertaken at the request of the Assistant Director of Commercial Operations, following the discovery that a required 'Options Exercise' for Surrey's Retained Firefighters (RFF) to join the Modified Fire Pension Scheme did not take place in the timeframe prescribed by the DCLG. Historically, RFFs had been precluded from membership of the 1992 Scheme, but following legal challenge they have been entitled to join the Modified 2006 Scheme, if they chose so to do by expressing a preference prior to September 2015 (the end of the DCLG timeframe).

We were only able to give an opinion of **Minimal Assurance** following our review. The Options Exercise required was not even started - let alone completed - by council officers within the stipulated timeframe set by DCLG. This failure can be attributed to a complete breakdown of effective governance, management oversight, and personal accountabilities by a number of officers of the council, most of whom have now left council employment.

The audit identified the need for a review of the current governance arrangements in place over the Fire Pension Scheme to ensure such an issue could not recur, and an audit is proposed in the 2019/20 audit plan to address this. We also identified the need for the council to seek legal and financial support to fully understand any possible future liabilities falling on the authority for RFF not given an opportunity to join the scheme at the time, who now may wish to do so.

## Revenue Budgetary Control

Revenue Budgetary Control is deemed to be a key financial system and is therefore subject to annual internal audit review. The audit set out to confirm the existence of key controls within this area, including that:

- Budgets are controlled in accordance with financial regulations;
- There is evidence to support the approval of the budget;
- SAP (Systems, Applications & Products in Data Processing) is updated in accordance with the agreed budgets;
- SAP provides an effective management tool, to enable senior management and the managing body to be kept fully informed of whether the organisation will meet its required spending levels;
- SAP provides information to management which is up to date and should be in a format which can be understood easily;
- Regular budget monitoring is undertaken and the results reported to management in a timely manner; and
- Variations in the budget are reported and acted upon.

Our audit confirmed that expected controls were in place and operating effectively. We identified that some budget users found SAP difficult to use and were reliant upon others to assist them with access to/understanding their budget. We also identified that at the time of audit a number of budget holders were yet to return their Budget Accountability Statements, nor was it clear what sanctions might follow if they failed to do so.

Overall, however, from the work undertaken we were able to give an opinion of **Reasonable Assurance** for this key financial system will all necessary actions for improvement agreed with management.

## Emergency Planning and Response

Surrey County Council (SCC) has statutory duties under the Civil Contingencies Act 2014 (CCA) to ensure that the council is prepared and able to respond to any emergency incidents within the county. SCC is identified in the CCA as a "Category 1 responder", a body likely to be at the core of the response to most emergencies.

The Emergency Management Team (EMT) is responsible for ensuring that the statutory duties are carried out. The team works closely with other SCC departments and members of the Surrey Local Resilience Forum (SLRF) to co-ordinate Surrey's emergency arrangements to ensure that if a major incident occurs, residents are prepared and essential services are restored as quickly as possible. The team's work includes risk assessment, emergency planning, business continuity management, co-ordination with other key departments and



responders, providing a 24 hour on-call service to manage incidents, and providing advice and guidance to businesses and other organisations and community groups.

The purpose of our audit was to assess how effectively EMT is meeting its objectives at both local and SLRF levels, and to assess whether it complies with the CCA requirements, through a review of key controls and objectives.

We were able to identify that many key controls were present in the areas examined, that key policies and processes for EMT were in place, and that business continuity plans and business impact assessments have been prepared for all SCC services.

The audit did, however, identify a number of areas where arrangements need to be strengthened further, including the need to ensure:

- Recently revised governance arrangements are fully implemented and tested;
- There is an appropriate forum for discussing and escalating EMT related issues, now likely to be achieved through the new Corporate Resilience and Health & Safety Group;
- Business support services are readily available in the event of a serious incident;
- Staff listed as on-call are always readily available;
- All Business Continuity Plans (BCPs) and Business Impact Assessments (BIAs) updated as required; and
- Appropriate arrangements continue to be made in preparation for a No Deal Brexit.

Overall, we were able to give an opinion of **Partial Assurance** in this area, with management agreeing to all improvement actions arising.

### **Adult Social Care (ASC) Assessments**

This audit was commissioned by Chief Executive as an additional review in-year, with a view to providing assurance over the following key processes in ASC:

- Care needs assessments and approval of packages of care;
- Commissioning and procurement of care;
- Cost identification, forecasting, and financial monitoring; and
- Review of care packages.

Within the past year, ASC management have implemented numerous new ways of working designed to improve the efficiency of all stages of care package management. In addition, several transformation projects are ongoing intended to improve service delivery.

We were able to provide **Reasonable Assurance** over the controls operating within the area under review, whilst agreeing some actions with management for improvement. We undertook walkthrough testing of each of the new ways of working being implemented for

care package management and, reviewing these initial results, were satisfied that the service is taking appropriate action to improve the processes and cost management of social care delivery.

We tested a number of interfacing IT systems, which have ensured that, not only are there robust care records, but also that a variety of management information is readily available. Our testing concluded that Consistency Practice meetings provide challenge and scrutiny of care package hours and costs, and that the implementation of Market Place (a self-managing e-brokerage system for home based care (HBC) and LD packages that improves the purchasing process and allows practitioners to select the best value provider available to deliver care) had been successful.

There is, however, an opportunity to make better use of data to introduce routine checking of the cost effectiveness of packages purchased using Market Place. The need for such checks is highlighted by our findings which identified that only 30% of care packages are purchased from the cheapest provider.

We concluded that the service is making good use of peer support and review, including conducting a substantial benchmarking exercise that enabled identification of potential inefficiencies, and working with similar local authorities to identify good practice and alternative approaches to care provision.

The service are continuing to develop transformational solutions to address residual weaknesses in the control environment, which includes the development of an online portal for individual self-assessment, together with a “Conversations at the front door” model to reduce demand for full assessments and care packages.

### **Procurement Controls**

During recent months a number of reviews have highlighted instances where more robust challenge from the Procurement Team, acting as gatekeeper for the procurement process, would have helped ensure that more compliant processes were followed, better value for money was achieved and the risk of external challenge would have been reduced. We, therefore, took opportunity to highlight these and to use the lessons learned to assist in driving improvement across the partnership.

Based on three specific areas examined, we identified key opportunities for improvement relating to:

- The need for the Procurement Team to be involved at the outset of tendering exercises and, if possible, to avoid changes to personnel in the middle of tenders (though this may be difficult to avoid if staff leave the authority);

- The use of more senior and experienced Procurement personnel to support tenders in some instances;
- The need to identify more consistently instances where procuring officers (i.e. client officers outside the Procurement Team) have a conflict of interest and to follow up and challenge any potential conflicts that have been declared more effectively;
- Educating officers across the Council to promote compliance with Contract Standing Orders as well as promoting their existence and significance more broadly;
- Improving the robustness with which tenders are evaluated and ensuring that any amendments to bids are managed consistently and fairly;
- Ensuring all meetings with suppliers are documented to promote transparency and fairness; and
- Highlighting the importance of maintaining good working relations with suppliers, managing bidders' expectations and, thereby, forestalling complaints by unsuccessful tenderers.

A detailed management action has been agreed to resolve these issues and promote good procurement practice. Due to the nature of this audit, no overall opinion was given.

### **Capital Expenditure Monitoring**

The Council manages its £322m capital programme through a 3 year Medium Term Financial Plan MTFP (2018 to 2021). The planned budget for the 2018/2019 financial year was £131.9m. As a key financial system, capital expenditure monitoring is subject to regular review by Internal Audit.

The objective of the audit was to provide assurance that key controls were in place, were operating as expected and to ensure budget holders were managing their capital expenditure in an effective manner.

We were able to provide an opinion of **Substantial Assurance** following our review, with the key objectives of the process being effectively met, specifically to ensure:

- The budget is reported and accepted formally by the Council;
- Budgets are controlled in accordance with Financial Regulations;
- Regular budget monitoring is undertaken, with timely reporting to management;
- Variations in the budget are reported and acted upon; and
- Explanations are obtained and appropriate responses made promptly where significant variances occur.

Our audit report contained some low and medium priority agreed actions in respect of revisions to the Capital Budget Handbook, and in amending Financial Regulations to include

capital budget holders in the requirements for registering a Budget Accountability Statement.

### Traffic Signals

In April 2017, contracts for the inspection, maintenance and refurbishment of traffic signals were awarded to Siemens Traffic Solutions. Our review, which considered the effectiveness of traffic signal management, and in particular the management and performance of the Siemens contract, was requested by the service and was part of the agreed 2018/19 Internal Audit Plan.

The purpose of our audit was to assess key controls and processes in this contract. We paid particular attention to verifying the existence and effectiveness of:

- A suitable inspection plan, together with recording of inspections, reported faults and minor works with a schedule of rates for necessary works and programme of refurbishment;
- Properly specified and cost-estimated revenue and capital works;
- Controls to ensure works were carried out to acceptable timescales and standards prior to authorising payment, and that payments are in line with contracted rates; and that
- Regular meetings with the contractor were held to review performance and to address significant issues.

We found that following an initially challenging period, the contractor now appears to be performing to an acceptable standard, with strong contract management by the Traffic Operations Team.

Additionally, we were able to provide assurance that the controls and processes tested were effective, including the arrangements around inspection programmes, cost estimation for necessary works, budgetary control and approval of payments.

Whilst overall we were able to provide **Reasonable Assurance** in relation to this area, we did agree a number of actions for improvement with management, particularly relating to:

- Use of contract variations;
- Monitoring of invoiced costs against estimate trends;
- Recording and reporting of inspections;
- Application of penalties where considered appropriate; and
- Contractor maintenance of Variable Messaging Signs (VMS) equipment.

## Transformation Programme

As a starting point for our ongoing review of this area, we have assessed the current position of SCC's transformation programme against the criteria detailed in a report produced following the failed transformation programme at Bristol City Council, the 'Bundred Report'.

A high level assessment against criteria within the Bundred Report indicates SCC management have addressed all the fundamental principles of a transformation programme. The effectiveness of arrangements is yet to be determined, and will form the focus of future assurance work, but the efforts made to date to ensure the governance underpinning the programme is robust is encouraging.

Our first Position Statement made the following observations:

- Business cases are consistent and consider both 'business as usual' components as well as the additional resources required to support transformation;
- The Transformation Steering Board and Change Management Board have appropriate membership and frequency of meetings, and actions arising are recorded although the terms of reference for both boards could be updated to clarify the extent of delegated responsibility, in particular for financial or other decisions that would normally require escalation to Cabinet or Council;
- Project Managers may benefit from support or training to ensure a consistent approach to the identification and recording of risk;
- As the programme progresses, business cases are being replaced by 'project overviews' to support delivery. The programme is moving with significant speed but we are satisfied that the current exercise to prioritise projects should help focus resources and facilitate successful delivery of project outcomes.

## Quality Assurance Framework in Children's Services

The objective of this audit was to review the processes in place through which the Quality Assurance Framework in Children's Social Services was operating, recognising that the improvements arising from quality assurance review relies in the greater part on service managers acting on their findings and recommendations. With this in mind, our audit also reviewed samples of the work undertaken by the Quality Assurance Team to assess its impact.

Whilst we have provided an overall opinion of **Partial Assurance** since the fieldwork was undertaken at the end of 2018, there has been a great deal of reorganisation and activity across Children's Services, particularly in this area. This includes the appointment of a Director of Quality Assurance, subsequent revisions to the Framework, and changes in

operational practice. Whilst our findings remain accurate at the point in time that the audit was completed, progress had already been made by management to address the issues identified.

Areas for improvement identified during our review included:

- Updating and implementing the underpinning Quality Assurance Framework and Approach document;
- Ensuring that comprehensive strategies, policy and procedures specifically relating to the Quality Assurance function are in place;
- In addition to leadership oversight and approval of the new structure and quality assurance improvement plans, ensuring that the annual quality assurance programme of work is formerly presented to and approved by the Leadership Team or the Children and Education Select Committee;
- Strengthening the independence of the Quality Assurance function to help ensure findings from its work are reported clearly and to enable appropriate improvement actions to be taken in all cases; and
- Maintaining appropriate records to confirm that recommendations made in Quality Assurance reports have been agreed and actioned.

### **Grant Certification**

We have audited and certified two grant claims where the council receives funds through the Interreg Europe Programme. Both of these claims were at the initial (First Semester) stage, in programmes that will continue for a number of years.

The claims were in respect of:

- ‘Digi-Tourism’ – to promote Digital Realities (Virtual reality and Augmented reality) in the European tourism sector; and
- ‘Urban Links 2 Landscape’ – to develop policies and approaches to the efficient use of open land on the fringe of urban areas.



**AUDIT & GOVERNANCE COMMITTEE**  
**29 July 2019**

**SURREY PENSION FUND**  
**LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2018/19**  
**AND**  
**GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT**

**SUMMARY AND PURPOSE:**

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2019, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) expects to issue an unqualified opinion on the accounts.

Grant Thornton, as the Council's external auditor, has completed its audit and the Pension Fund financial statements are presented to this Committee to be approved prior to publication.

Annex 1 represents the primary statements and accompanying notes to the accounts.

The result of the external audit is reported in the Audit Findings for Surrey Pension Fund Report, which is presented at Annex 2.

The draft letter of representation to the external auditor in respect of matters that are material to the financial statements, is presented at Annex 3.

**RECOMMENDATIONS:**

The Committee is asked to:

- (i) Approve the 2018/19 Pension Fund Accounts in Annex 1.
- (ii) Consider the content of the Audit Findings for Surrey Pension Fund Report in Annex 2.
- (iii) Determine any issues that need to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
- (iv) Consider the content of the draft representation letter as set out in Annex 3 and authorise the Deputy Chief Finance Officer to sign it on the Council's behalf.

## **2018/19 PENSION FUND ACCOUNTS**

1. Grant Thornton audits both the County Council and Pension Fund accounts and is required to present separate audit opinions on each.
2. During the audit, Grant Thornton identified a few minor issues, which have led to a number of minor, non-material amendments being made to the 2018/19 draft financial statements and related notes to the accounts.
3. Annex 1 represents the 2018/19 Pension Fund Accounts.

## **2018/19 AUDIT FINDINGS REPORT**

4. The external auditor is required to report on the Pension Fund financial statements. The Audit Findings for Surrey Pension Fund Report 18/19 is presented at Annex 2 and sets out a summary of the work carried out, the conclusions reached and recommendations made.
5. The Committee will note that the auditor is anticipating issuing an unqualified opinion on the financial statements

## **MANAGEMENT REPRESENTATION LETTER**

6. It is considered good practice for those charged with governance to provide the external auditor with a letter of representation (Annex 3) in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist.

## **IMPLICATIONS:**

- A) Financial  
There are no direct financial implications.
- B) Equalities  
There are no direct equality implications.
- C) Risk management and value for money  
Pension Fund risks are proactively monitored by officers and the Surrey Pension Fund Committee.

### **REPORT AUTHOR:**

Mamon Zaman, Senior Accountant

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### **Annexes:**

1. Pension Fund Accounts 2018/19
2. Audit report 2018/19
3. Draft letter of representation



# **SURREY PENSION FUND ACCOUNTS 2018/2019**

## Surrey Pension Fund - Fund account

2017/2018			2018/2019
£000		Note	£000
	<b>Contributions and benefits</b>		
<b>178,283</b>	Contributions receivable	7	<b>176,776</b>
<b>12,881</b>	Transfers in	8	<b>14,954</b>
<b>191,164</b>			<b>191,730</b>
<b>-144,146</b>	Benefits payable	9	<b>-149,832</b>
<b>-9,527</b>	Payments to and on account of leavers	10	<b>-10,946</b>
<b>-12,222</b>	Investment and governance expenses	14	<b>-13,641</b>
<b>-1,626</b>	Administration expenses		<b>-1,829</b>
<b>-167,521</b>			<b>-176,248</b>
	<b>Net additions from dealings with members</b>		
<b>23,643</b>			<b>15,482</b>
	<b>Return on investments</b>		
<b>65,751</b>	Investment income	16	<b>59,055</b>
<b>-1,032</b>	Taxes on income	15	<b>-785</b>
<b>98,662</b>	Change in market value of investments	17	<b>185,965</b>
<b>163,381</b>	<b>Net return on investments</b>		<b>244,213</b>
	<b>Net increase in the fund during the year</b>		
<b>187,024</b>			<b>259,695</b>
	<b>Net assets of the fund</b>		
<b>3,868,859</b>	<b>At 1 April</b>		<b>4,055,883</b>
<b>4,055,883</b>	<b>At 31 March</b>		<b>4,315,578</b>

## Surrey Pension Fund - Net asset statement

31 Mar 2018		Note	31 Mar 2019
£000			£000
	<b>Investment assets</b>	17	
601,208	Bonds		706,529
2,413,734	Equities		2,489,806
321,737	Property unit trusts		283,240
394,288	Diversified growth		402,589
155,782	Private equity		255,964
	Derivatives	17c	
	- Futures		
1,327	- Foreign exchange contracts		1,329
80,636	Cash		150,680
60,000	Other short term investments		0
4,740	Other investment balances	17b	3,407
	<b>Investment liabilities</b>		
	Derivatives	17c	
0	- Futures		0
-1	- Foreign exchange contracts		-1,452
-3,393	Other investment balances	17b	-3,445
0	Borrowings		0
<b>4,030,058</b>	<b>Net investment assets</b>		<b>4,288,647</b>
7,260	<b>Long-term debtors</b>	12	5,450
29,861	<b>Current assets</b>	11	30,635
-11,296	<b>Current liabilities</b>	13	-9,154
<b>4,055,883</b>	<b>Net assets of the fund at 31 March</b>		<b>4,315,578</b>

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

### **Note 1: Description of the fund**

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over two hundred and fifty other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply. The fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

a) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.
- The number of employees in the fund and the number of pensioners as at 31 March 2018 and 31 March 2019 are:

<b>Surrey Pension Fund</b>	<b>31 Mar 2018</b>	<b>31 Mar 2019</b>
<b>Total Number of Employers</b>	<b>251</b>	<b>271</b>
<b>Employees in the Scheme</b>		
Surrey County Council	18,148	17,151
Other Employers	17,654	17,141
<b>Total</b>	<b>35,802</b>	<b>34,292</b>
<b>Pensioners</b>		
Surrey County Council	12,105	12,721
Other Employers	13,030	13,208
<b>Total</b>	<b>25,135</b>	<b>25,929</b>
<b>Deferred Pensioners</b>		
Surrey County Council	28,678	31,342
Other Employers	16,401	18,632
<b>Total</b>	<b>45,079</b>	<b>49,974</b>
<b>Total Number of Members</b>	<b>106,016</b>	<b>110,195</b>

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

## c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	<b>Service pre 1 April 2008</b>	<b>Service 1 April 2008 until 31 March 2014</b>
Basis of pension	1/80 <sup>th</sup> of final salary	1/60 <sup>th</sup> of final salary
Lump sum	Automatic lump sum 3 x pension  Trade £1 of annual pension for £12 lump sum	No automatic lump sum  Trade £1 of annual pension for £12 lump sum

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>).

	<b>Service 1 April 2008 until 31 March 2014</b>	<b>LGPS 2014 scheme</b>
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 <sup>th</sup> of salary	1/49 <sup>th</sup> of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

<b>Pre 2014 employee contribution rates</b>	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

<b>LGPS 2014 employee contribution rates for 2018/19</b>	
Pensionable payroll banding	Contribution rate
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
More than £157,801	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>) or the LGPS 2014 scheme website (<http://www.lgps2014.org>).

## **Note 2: Basis of preparation**

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at the year end at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

## **Note 3: Summary of significant accounting policies**

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

### **Fund account – revenue recognition**

#### **a) Contribution income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.



c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity

Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

**Fund account – expense items**

e) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2019 is reported as a current liability.

g) Management expenses

Administrative expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and

entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

#### Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

#### Governance expenses

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

### Net assets statement

#### h) Financial assets

Investments in Border to Coast Pensions Partnership are valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, only became licensed to trade on 1 August 2018 and no reliable trading results or profit forecasts are as yet available. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other financial assets are included in the financial statements on a fair value basis as at the reporting date, with the exception of loans and receivables which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

##### i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- ii) Fixed interest securities  
Fixed interest securities are recorded at net market value based on their current yields.
- iii) Unquoted investments  
The fair value of investments for which market quotations are not readily available is as follows:
  - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
  - Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
  - Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.
- iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.
- v) Limited partnerships  
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- vi) Pooled investment vehicles  
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.
- i) Foreign currency transactions  
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- j) Derivatives  
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) Additional voluntary contributions

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

## **Note 4: Critical judgements in applying accounting policies**

### **Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2019 was £256 million (£155.8 million at 31 March 2018).

### **Pension Fund Liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

No allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

### **Investment in Border to Coast Pensions Partnership**

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licensed to trade on 1 August 2018
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

## **Note 5: Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement or subsequent notes as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The net pension liability of the fund would change.</p> <p>a +0.5% increase in Pensions Increase Rate will increase liabilities by £574m</p> <p>a +0.5% increase in Salary Increase Rate will increase liabilities by £87m</p> <p>a +0.5% increase in the Discount Rate will increase liabilities by £674m</p> <p>a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.</p>
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £256 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £99.7 million. There is a risk that asset or investment transaction misclassification may occur.

## Note 6: Events after the balance sheet date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

## Note 7: Contributions receivable

By category

2017/2018		2018/2019
£0		£0
<b>38,121</b>	<b>Total Employees' Contributions</b>	<b>38,502</b>
	Employers' Contributions	
97,181	Normal Contributions	95,662
0	Augmentation Contributions	0
42,981	Employers deficit	42,612
<b>140,162</b>	<b>Total Employers' Contributions</b>	<b>138,274</b>
<b>178,283</b>		<b>176,776</b>

2017/2018		2018/2019
£000		£000
83,861	Administering authority	80,839
86,022	Scheduled bodies	87,698
8,400	Admitted bodies	8,239
<b>178,283</b>		<b>176,776</b>

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

## Note 8: Transfers in from other pension funds

2017/2018		2018/2019
£000		£000
<b>12,881</b>	Individual transfers in from other schemes	<b>14,954</b>
<b>12,881</b>		<b>14,954</b>

**Note 9: Benefits payable**

By category

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
119,064	Pensions	126,014
21,606	Commutation and lump sum retirement benefits	19,571
3,399	Lump sum death benefits	4,146
77	Interest on late payment of benefits	101
<b>144,146</b>		<b>149,832</b>

By employer

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
69,429	Administering Authority	70,690
63,619	Scheduled Bodies	67,001
11,098	Admitted Bodies	12,141
<b>144,146</b>		<b>149,832</b>

**Note 10: Payments to and on account of leavers**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
9,257	Group transfers to other schemes	10,732
283	Refunds of contributions	217
-13	Payments for members joining state schemes	-3
<b>9,527</b>		<b>10,946</b>



**Note 11: Current assets**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
3,215	Contributions - employees	2,391
9,838	Contributions - employer	10,847
16,808	Sundry debtors	17,397
<b>29,861</b>		<b>30,635</b>

## Analysis of current assets

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
5,612	Central government bodies	2,535
19,122	Other local authorities	23,435
5,128	Other entities and individuals	4,665
<b>29,861</b>		<b>30,635</b>

**Note 12: Long term debtors**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
7,260	Central government bodies	5,450
<b>7,260</b>		<b>5,450</b>

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2019 is £7.260m but £1.815m was due in 2018/19, leaving a long term debtor of £5.450m.

**Note 13: Current liabilities**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
11,094	Sundry creditors	8,885
202	Benefits payable	269
<b>11,296</b>		<b>9,154</b>

## Analysis of current liabilities

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
1,418	Central government bodies	1,345
6,254	Other local authorities	4,424
3,624	Other entities and individuals	3,385
<b>11,296</b>		<b>9,154</b>

**Note 14: Investment and governance expenses**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
11,262	Investment management fees	10,256
239	Investment custody fees	171
721	Oversight and governance costs	3,214
<b>12,222</b>		<b>13,641</b>

The investment management fees includes £569k in respect of transaction costs (2017/18: £1.1million).

As part of its oversight and governance costs in 2018/19, the fund had also spent £2m in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

**Note 15: External Audit Costs**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
31	Payable in respect of external audit	21
<b>31</b>		<b>21</b>

**Note 16: Investment income**

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
	<b>Bonds</b>	
3,667	UK	0
7,468	Overseas	5,491
	<b>Equities</b>	
24,959	UK	23,526
11,260	Overseas	13,733
9,062	Property unit trusts	11,101
1,052	Diversified growth	1,693
2,315	Private equity	2,821
4,807	Interest on cash deposits	519
1,161	Other	171
<b>65,751</b>		<b>59,055</b>

# **Note 17a: Reconciliation of movements in investments and derivatives**

	<b>Market value at 31 Mar 2018</b>	<b>Reclassified Asset</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Market movements</b>	<b>Market value at 31 Mar 2019</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bonds	<b>601,208</b>		100,492	0	4,829	<b>706,529</b>
Equities	<b>2,413,734</b>		4,008,340	-4,070,705	138,437	<b>2,489,806</b>
Property unit trusts	<b>321,737</b>	-60,000	81,225	-65,569	5,847	<b>283,240</b>
Diversified growth	<b>394,288</b>		12,111	0	-3,810	<b>402,589</b>
Private equity	<b>155,782</b>	60,000	80,374	-91,286	51,094	<b>255,964</b>
Derivatives						
- Futures						
- Forex contracts	<b>1,326</b>		66,507	-37,130	-30,826	<b>-123</b>
	<b>3,888,075</b>	<b>0</b>	<b>4,349,049</b>	<b>-4,264,690</b>	<b>165,571</b>	<b>4,138,005</b>
Cash	<b>80,636</b>					<b>150,680</b>
Other Short Term Investments	<b>60,000</b>					
Other investment balances	<b>1,347</b>					<b>-38</b>
	<b>4,030,058</b>				<b>20,372</b>	<b>4,288,647</b>

Having taken advice from its fund manager, the Fund had chosen to reclassify its two Darwin assets from Property Funds to Private Equity in 2018/19.

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	583,327	304,323	-283,524	-2,918	601,208
Equities	2,288,136	1,938,482	-1,845,436	32,552	2,413,734
Property unit trusts	275,367	88,284	-54,202	12,288	321,737
Diversified growth	390,257	2,327	0	1,704	394,288
Private equity	145,228	53,184	-50,680	8,050	155,782
Derivatives					
- Futures		311	-406	95	
- Forex contracts	-45	28,423	-68,141	41,089	1,326
	<b>3,682,270</b>	<b>2,415,334</b>	<b>-2,302,389</b>	<b>92,860</b>	<b>3,888,075</b>
Cash	117,498				80,636
Other Short Term Investments	42,000				60,000
Other investment balances	3,344				1,347
				5,802	
	<b>3,845,112</b>			<b>98,662</b>	<b>4,030,058</b>

**Note 17b: Analysis of investments**

	<b>31 Mar 2018</b>	<b>31 Mar 2019</b>	
	<b>£000s</b>	<b>£000s</b>	
<b>Fixed interest securities</b>			
UK public sector & quoted	205,115	211,246	Level 2
Overseas pooled fund	396,093	495,283	Level 1
	<b>601,208</b>	<b>706,529</b>	
<b>Equities</b>			
UK quoted	605,423	219,113	Level 1
UK pooled funds	418,042	492,713	Level 1
Overseas quoted	320,896	309,803	Level 1
Overseas pooled funds	1,069,373	1,468,177	Level 1/2
	<b>2,413,734</b>	<b>2,489,806</b>	
<b>Property unit trusts</b>			
UK property funds	279,879	206,301	Level 2/3
Overseas property funds	41,858	76,939	Level 2/3
	<b>321,737</b>	<b>283,240</b>	
<b>Diversified growth</b>			
Overseas diversified growth funds	394,288	402,589	Level 1
	<b>394,288</b>	<b>402,589</b>	
<b>Private equity</b>			
UK limited partnerships	22,717	104,877	Level 3
Overseas limited partnerships	41,411	51,366	Level 3
Overseas fund of funds	91,654	99,721	Level 3
	<b>155,782</b>	<b>255,964</b>	
<b>Derivatives</b>			
FX forward contracts	1,326	-123	Level 2
	<b>1,326</b>	<b>-123</b>	
<b>Cash deposits</b>	<b>80,636</b>	<b>150,680</b>	Level 1
<b>Other short term investments</b>	<b>60,000</b>	<b>0</b>	
<b>Other investment balances</b>			
Outstanding sales	357	1,137	Level 2
Outstanding purchases	-3,393	-3,444	Level 2
Accrued income - dividends and interest	4,383	2,269	Level 2
	<b>1,347</b>	<b>-38</b>	
<b>Total investments</b>	<b>4,030,058</b>	<b>4,288,647</b>	

## Note 17c: Analysis of derivatives

### Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2019 the fund had no future contracts in place. At 31 March 2018 the fund had no future contracts in place

### Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2019 the Fund had forward currency contracts in place with a net unrealised loss of -£123k (net unrealised gain of £1,327k at 31 March 2018).

2018/19							
No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	GBP	JPY	143	-20,803	0	-1
2	One Month	JPY	GBP	99,626	-685	6	0
3	Three Months	GBP	JPY	77,360	-11,150	0	-78
3	Three Months	GBP	EUR	149,652	-171,767	1,323	0
7	Three Months	GBP	USD	442,232	579,813	0	-1,373
						<b>1,329</b>	<b>-1,452</b>

2017/18							
No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	GBP	JPY	137	-20,650	0	0
5	Two Months	GBP	EUR	118,450	-134,064	702	0
5	Two Months	GBP	JPY	66,837	-9,954,387	19	0
8	Two Months	GBP	USD	374,615	-525,891	606	0
						<b>1,327</b>	<b>0</b>

### Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2018/19 the fund operated a stock lending programme in partnership with the fund custodian. As at 29 March 2019 (the last working day) the value of quoted securities on loan was £53.8 million in exchange for collateral held by the fund custodian at fair value of £57.9 million

### Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018, and will continue to transition more of its active assets over the coming years.

Investments managed within Border to Coast Pensions Partnership Ltd;

Market value 31 March 2018		Manager	Market value 31 March 2019	
£000	%		£000	%
0	0.0	Border to Coast UK Equity Alpha	464,200	11.1
<b>0</b>			<b>464,200</b>	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	%		£000	%
1,151,591	28.6	Legal & General Investment Management (LGIM)	1,190,723	28.3
373,811	9.3	Majedie Asset Management	243,621	5.8
311,993	7.7	UBS Asset Management	0	0
498,553	12.4	Marathon Asset Management	505,222	12.0
317,106	7.9	Newton Investment Management	333,760	7.9
322,509	8.0	Western Multi Asset Credit	422,967	10.1
73,663	1.8	Franklin Templeton Investments	72,316	1.7
150,596	3.7	Baillie Gifford Life Limited	161,151	3.8
260,170	6.5	CBRE Global Multi-Manager	287,636	6.8
122,576	3.0	Ruffer	121,748	2.9
121,117	3.0	Aviva	119,691	2.8
<b>3,703,685</b>			<b>3,458,835</b>	
<b>3,703,685</b>			<b>3,923,035</b>	

The table above excludes the private equity portfolio as well as internal cash held within the Fund.



The following investments represent more than 5% of the net assets of the fund

<b>Market value 31 March 2018</b>		<b>Security</b>	<b>Market value 31 March 2019</b>	
<b>£000</b>	<b>%</b>		<b>£000</b>	<b>%</b>
494,553	12.2	Marathon Global Contractual Fund	501,089	11.6
114,467	2.8	LGIM - TLCV Bespoke (34048)	492,637	11.4
0	0	Border to Coast UK Equity Alpha	464,200	10.8
322,431	8.0	Western Multi-Asset Credit EUR AC	422,967	9.8
0	0	LGIM – MSCI World Low Carbon	352,109	8.2
0	0	LGIM – Rafi Multi Factor	345,977	8.0
496,453	12.2	LGIM World Developed Equity Index	0	0
376,553	9.3	Legal & General UK Equity Index	0	0
<b>1,804,457</b>			<b>2,578,979</b>	

## Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of Asset</b>	<b>Valuation Hierachy</b>	<b>Basis of Valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Not required
Pooled Investments - Hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
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### Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	<b>Assessed Valuation Range (+/-) %</b>	<b>Value at 31 March 2019 £000</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Private Equity	10%	255,964	281,560	230,368
Property funds	10%	142,704	156,974	128,433
<b>Total</b>		<b>398,668</b>	<b>438,434</b>	<b>358,801</b>

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 16 above) produce different price results

### Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2018	Transfers in/ out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
Equities	2,904	132	0	-2,591	-445	0
Property unit trusts	64,859	68,913	18,813	-20,416	10,535	142,704
Private equity	155,782	60,000	38,418	-51,286	53,050	255,964
	<b>223,545</b>	<b>129,045</b>	<b>57,231</b>	<b>-74,293</b>	<b>63,140</b>	<b>398,668</b>

### Note 18c: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

#### As at 31 March 2018

#### As at 31 March 2019

Designated as fair value though profit and loss £000	Financial assets at amortised cost £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Financial assets at amortised cost £000	Financial liabilities at amortised costs £000
			<b>Financial assets</b>			
601,208			Bonds	706,529		
2,413,734			Equities	2,489,806		
321,737			Property unit trusts	283,240		
394,288			Diversified growth	402,589		
155,782			Private equity	255,964		
1,327			Derivatives	1,329		
	80,636		Cash		150,680	
	60,000		Other short term investments			
4,740			Other investment balances	3,407		
	37,121		Debtors		36,085	
<b>3,892,816</b>	<b>177,757</b>		<b>Total financial assets</b>	<b>4,142,864</b>	<b>186,765</b>	

			<b>Financial liabilities</b>		
-1			Derivatives	-1,452	
-3,393			Other investment balances	-3,445	
		-11,296	Creditors Borrowings		-9,154
<b>-3,394</b>		<b>-11,296</b>	<b>Total financial liabilities</b>	<b>-4,897</b>	<b>-9,154</b>
<b>3,889,422</b>	<b>177,757</b>	<b>-11,296</b>		<b>4,137,967</b>	<b>186,765</b>
					<b>-9,154</b>

**Note 18d: Net gains and losses on financial instruments**

<b>31 March 2018</b>		<b>31 March 2019</b>	
<b>£000</b>		<b>£000</b>	
	<b>Financial Assets</b>		
92,860	Designated at Fair Value through profit and loss	196,397	
5,802	Loans and Receivables	20,210	
	<b>Financial Liabilities</b>		
0	Fair Value through profit and loss	-30,826	
0	Financial liabilities at amortised cost		
<b>98,662</b>	<b>Total</b>	<b>185,781</b>	

**Note 18e: Fair Value Hierarchy**

<b>31 March 2019</b>	<b>Quoted market price Level 1 £000</b>	<b>Using observable inputs Level 2 £000</b>	<b>With significant unobservable inputs Level 3 £000</b>	<b>Total £000</b>
Financial assets at Fair Value	2,420,590	1,332,588	398,668	4,151,846
Loans and Receivables	52,520	1,230	0	53,750
Financial Liabilities at Fair Value	0	-4,897	0	-4,897
<b>Net financial assets</b>	<b>2,473,110</b>	<b>1,328,921</b>	<b>398,668</b>	<b>4,200,699</b>

As per the advice of Legal & General Investment Management (LGIM), The Fund had chosen to reclassify its passive assets held as at 31 March 2019, from Level 1 to Level 2 investments. The value of the Fund's passive assets as at 31 March 2019 was £1.191bn, which had all been reclassified as Level 2.

31 March 2018	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at Fair Value	3,462,847	206,021	223,545	3,892,413
Loans and Receivables	48,061	3,367	0	51,428
Financial Liabilities at Fair Value	0	-3,393	0	-3,393
<b>Net financial assets</b>	<b>3,510,908</b>	<b>205,995</b>	<b>223,545</b>	<b>3,940,448</b>

#### Note 18f: Book cost

The book cost of all investments at 31 March 2019 is £3,164million (£3,055million at 31 March 2018).

#### Note 19: Outstanding commitments

At 31 March 2019 the Fund held part paid investments on which the liability for future calls amounted to £195.1million (£127million as at 31 March 2018)

#### Note 20: Nature and extent of risks arising from financial instruments

##### Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

##### a) Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken

external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

### Other price risk – Sensitivity Analysis

PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2018/19 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2019 £000	Change	Value on increase £000	Value on decrease £000
UK equities	711,826	9.90%	782,308	641,344
Overseas equities	1,777,980	9.28%	1,942,938	1,613,022
Bonds	495,283	4.06%	515,368	475,198
Index-linked	211,246	9.81%	231,966	190,526
Cash	150,680	0.50%	151,433	149,927
Other short term investments	0	0.50%	0	0
Property	283,240	4.33%	295,504	270,976
Alternatives	255,964	6.01%	271,348	240,580

Diversified growth fund	402,589	4.14%	419,244	385,934
Other assets	-161	0.50%	-162	-160
<b>Total Investment Assets</b>	<b>4,288,647</b>	<b>4.60%</b>	<b>4,485,771</b>	<b>4,091,523</b>

<b>Asset type</b>	<b>Value at 31 March 2018 £000</b>	<b>Change</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	396,093	4.38%	413,439	378,747
Index-linked	205,115	10.00%	225,627	184,604
Cash	80,636	0.03%	80,663	80,609
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,737	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	2,626	2,624
<b>Total Investment Assets</b>	<b>4,030,011</b>	<b>6.01%</b>	<b>4,272,248</b>	<b>3,787,774</b>

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

### Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.



<b>As at 31 March 2018</b>		<b>As at 31 March 2019</b>	
<b>£000</b>		<b>£000</b>	
80,636	Cash & cash equivalents	150,680	
60,000	Other short term investments	0	
396,093	Fixed interest securities	495,283	
<b>536,729</b>	<b>Total</b>	<b>645,963</b>	

### Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

<b>Asset type</b>	<b>Carrying amount as at 31 March 2019</b>	<b>Change in net assets</b>	
	<b>£000</b>	<b>+100 bps</b>	<b>- 100 bps</b>
		<b>£000</b>	<b>£000</b>
Cash & cash equivalents	150,680	1,507	-1,507
Other short term investments	0	0	0
Fixed interest securities	495,283	4,953	-4,953
<b>Total</b>	<b>645,963</b>	<b>6,460</b>	<b>-6,460</b>

<b>Asset type</b>	<b>Carrying amount as at 31 March 2018</b>	<b>Change in net assets</b>	
	<b>£000</b>	<b>+100 bps</b>	<b>- 100 bps</b>
		<b>£000</b>	<b>£000</b>
Cash & cash equivalents	80,636	81	-81
Other short term investments	60,000	60	-60
Fixed interest securities	396,093	396	-396
<b>Total</b>	<b>536,729</b>	<b>537</b>	<b>-537</b>

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency

other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

#### **Currency risk – sensitivity analysis**

PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2018/19 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

<b>Asset type</b>	<b>Value at 31 March 2019 £000</b>	<b>% Change</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Equities	1,479,276	11.54%	1,649,999	1,308,553
Fixed interest	495,283	11.54%	552,443	438,123
Property and Private Equity	228,026	11.54%	254,342	201,710
Diversified Growth	402,589	11.54%	449,052	356,126
Cash and Other Assets	14,026	11.54%	15,645	12,407
<b>Total</b>	<b>2,619,200</b>	<b>11.54%</b>	<b>2,921,481</b>	<b>2,316,919</b>

<b>Asset type</b>	<b>Value at 31 March 2018 £000</b>	<b>% Change</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
<b>Total</b>	<b>1,850,582</b>	<b>4.93%</b>	<b>1,941,842</b>	<b>1,759,322</b>

#### **b) Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund held no fixed term deposits with other Local Authorities as at 31 March 2019.

<b>Fixed Term Deposits</b>	<b>No. of days</b>	<b>Balance at 31 March 2019 £000</b>
<b>Other short term investments</b>		<b>0</b>

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2018 £000		Balance at 31 March 2019 £000	
	<b>Call account</b>		
20,000	Lloyds	19,000	
	<b>Money market fund</b>		
4,000	Goldman Sachs	25,000	
5,500	Aberdeen MMF	25,000	
	<b>Current account</b>		
64	HSBC	18,948	
<b>29,564</b>	<b>Internally Managed Cash</b>	<b>87,948</b>	
51,072	Externally Managed Cash	62,732	
<b>80,636</b>	<b>Total Cash</b>	<b>150,680</b>	

The fund's cash holding under its treasury management arrangements as at 31 March 2019 was £87.9million (£29.6million at 31 March 2018).

#### c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2017/18 or 2018/19

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

**d) Derivative risk**

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

**Note 21: Related party transactions**

i) Employer pension contributions paid by Surrey County Council in 2018/19 amounted to £63,982k (£62,796k in 2017/18).

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
41,031	Employers' current service contributions	41,466
21,286	Lump sum payments to recover the deficit in respect of past service	21,299
479	Payments into the fund to recover the additional cost of early retirement liabilities	1,217
<b><u>62,796</u></b>		<b><u>63,982</u></b>

ii) Surrey Pension Fund paid Surrey County Council £2,136k for services provided in 2018/19 (£1,847k in 2017/18).

<b>2017/2018</b>		<b>2018/2019</b>
<b>£000</b>		<b>£000</b>
221	Treasury management, accounting and managerial services	307
1,626	Pension administration services	1,829
<b><u>1,847</u></b>		<b><u>2,136</u></b>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2019 were £4,619k (£5,218k at 31 March 2018).

## Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund.

2017/18 £	Position	2018/19 £	
0	Director of Resources	25,356	1
24,109	Director of Corporate Finance	26,485	1
80,681	Head of Pensions	91,202	2
25,398	Senior Specialist Advisor	23,599	2
49,059	Senior Accountant	54,956	2
<b>179,247</b>		<b>221,598</b>	

2018/19

1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

## Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York
Glennmont Partners	Augentius (Luxembourg) S.A.

## **Note 24: Actuarial statement for 2018/19 - funding arrangements**

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

<b>Financial assumptions</b>	<b>31 March 2016</b>
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.1 years	26.4 years

\*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

2 May 2019

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB



## Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

### Present value of promised retirement benefits

Year ended	31/03/2019	31/03/2018
Active members (£m)	3,148	2,559
Deferred members (£m)	1,523	1,359
Pensioners (£m)	1,923	1,921
	<b>6,594</b>	<b>5,839</b>

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The figures also include an approximate allowance for the impact of GMP equalisation.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the

change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £491m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

### Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.7%

### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

### Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	549
0.5% p.a. increase in the Salary Increase Rate	1%	87
0.5% p.a. decrease in the Real Discount Rate	10%	676

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

### Professional notes

This paper accompanies our covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. This replaces our paper dated 30 April 2019, as this now includes allowance for the "McCloud ruling" and GMP equalisation.

Gemma Sefton FFA (For and on behalf of Hymans Robertson LLP)

9 July 2019

## Note 26: Additional Voluntary Contributions

Market Value 2017/18 £000	Position	Market Value 2018/19 £000
13,621	Prudential	14,520
<b>13,621</b>		<b>14,520</b>

Additional Voluntary Contributions, net of returned payments, of £2.6million were paid directly to Prudential during the year (£2.8million during 2017/18).

## Note 27: Investment Strategy Statement

Full details of the fund's investment policy are documented in the Investment Strategy Statement. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

## Note 28: Annual report

The Surrey Pension Fund Annual Report 2018/2019 provides further details on the management, investment performance and governance of the Fund.