

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time

Tuesday, 17
December 2019
at 10.30 am

Place

Room 104, County
Hall, Kingston upon
Thames, Surrey KT1
2DN

Contact

Joss Butler
Room 122, County Hall
Tel 020 8541 9702

Chief Executive

Joanna Killian



We're on Twitter:
[@SCCdemocracy](#)

joss.butler@surreycc.gov.uk

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

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

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Dr Peter Szanto, Mr 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), Mrs Helyn Clack (Vice-Chairman of the Council) and Joanna Killian (Chief Executive)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 26 SEPTEMBER 2019

(Pages 1
- 10)

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

3 DECLARATIONS OF INTEREST

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

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

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

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*11 December 2019*).
2. The deadline for public questions is seven days before the meeting (*10 December 2019*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
11 - 18)

To review the Committee's recommendations tracker.

6 TREASURY MANAGEMENT MID YEAR REPORT

(Pages
19 - 28)

This report summarises the council's treasury management activity during the first half of 2019/20, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management.

- 7 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (01/07/19 - 30/09/19)** (Pages 29 - 46)

The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2019 and 30 September 2019.

The current annual plan for Internal Audit is contained within the Internal Audit Strategy and Annual Plan 2019-20, which was approved by Audit and Governance Committee on 8 April 2019.

- 8 2018/19 AUDIT FINDINGS REPORT AND ANNUAL STATEMENT OF ACCOUNTS FOR S. E. BUSINESS SERVICES LTD, SURREY CHOICES LTD & HALSEY GARTON PROPERTY LTD** (Pages 47 - 122)

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2018/19 financial statements of S.E.Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd.

Outcome and findings of the external audit of the 2018/19 financial statements of Halsey Garton Property Ltd to follow.

- 9 EXTERNAL AUDIT UPDATE REPORT** (Pages 123 - 138)

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

- 10 LOCAL FIREFIGHTERS' PENSIONS BOARD** (Pages 139 - 156)

The Committee is being asked to approve a change to the Terms of Reference of the Surrey Local Firefighters' Pensions Board to allow Members to delegate attendance to substitutes.

- 11 DATE OF NEXT MEETING**

The next meeting of Audit & Governance Committee will be on 29 January 2020.

Joanna Killian
Chief Executive
Published: 9 December 2019

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 26 September 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:

(* = Present)

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

Substitute Members:

*Mrs Bernie Muir

48/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies have been received from Edward Hawkins and Peter Szanto.

Bernie Muir to act as substitute for Edward Hawkins.

38/19 MINUTES OF THE PREVIOUS MEETING - 29 JULY 2019 [Item 2]

A Member who previously made the comment at the previous meeting stated that the minute item **34/19** should be amended to read: ‘the Council should question the Local Government Association advice that pension auto-enrolment should not apply to Members (councillors) as they were not “workers”’. Subsequent to that meeting, Surrey County Council were taking the LGA’s view and the Member was certain that the Council should seek its own legal advice on the matter.

Subsequent to the amendments above, the minutes were approved as an accurate record of the previous meeting.

39/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

40/19 QUESTIONS AND PETITIONS [Item 4]

There were none.

41/19 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]

Witnesses:

Russell Banks, Orbis Chief Internal Auditor
 Amelia Christopher, Committee Manager
 David John, Audit Manager
 Cath Edwards, Service Improvement and Risk Manager

Key points raised during the discussion:

1. Members considered the value of the bulletin as the Orbis Chief Internal Auditor explained that from an Internal Audit perspective anything in the bulletin would be reported to the Committee. In response, Members agreed to keep the bulletin as it was a simplified format with key pieces of information highlighted for Members and proved useful for Committee substitutes. Democratic Services will circulate this more widely to all Members.
2. Action A2/19 - The Audit Manager agreed that the follow-up will be provided at the next meeting as the report was in its early stages.
3. Action A6/19 - To be provided in due course with the target of December.
4. Action A8/19 - In response to the Chairman's query, the Audit Manager and Orbis Chief Internal Auditor will circulate high priority items of minimal/partial assurance to the Vice-Chairmen of the select committees.

Action/Further information to note:

None.

RESOLVED:

That the Committee monitored the progress on the implementation of recommendations from previous meetings and noted the bulletin.

42/19 ANNUAL COMPLAINTS PERFORMANCE REPORT [Item 6]

Witnesses:

Sarah Bogunovic, Customer Relations and Service Improvement Manager

Key points raised during the discussion:

1. The Customer Relations and Service Improvement Manager introduced the report and informed the Committee that Surrey County Council operated three complaints procedures: one for Adult Social Care and one for Children's Services, which were statutory procedures, as well as one covering all other Council services – the Pensions Service was also included for the first year.
2. It was important that the Council was a learning organisation responsive to feedback and the measurement of its performance should be based on escalation rates - resolving complaints early - and uphold rates - where fault was found - rather than the volume of

complaints received. 1,408 complaints were received in 2018/19 (6% increase from previous year). This was compared to 1,980 compliments received in that year. There were also 1,396 wider customer enquiries of which 16% escalated to the complaints procedure.

In response to Member queries the Customer Relations and Service Improvement Manager explained that:

3. She would look into how many Members used the Councillor's email service which logged and coordinated responses to residents' enquiries, as Members noted it as useful. A Member stated that responses were prompt but mixed depending on the issue.
4. That the Council's online self-service complaints form for residents was different to sending them by email directly to the contact centre because it was automated and the form went directly into the electronic complaints system - reducing the bureaucratic process and allowing greater oversight as to the distribution of, and responses to, complaints.
5. To ensure timely and full responses would be provided to Ombudsman enquiries, a new complaints case management system was in place and workshops were being planned for service managers. Proactive reminders of deadlines were also being sent.
6. Roll-out of the new complaints case management system was underway, with Corporate and Children's Services already live and plans in place to roll the system out next to Adult Social Care, Pensions and Member / MP enquiries. It was anticipated that this would be completed by April 2020, pending user testing and refinement.
7. She recognised the genuine fear that complaining could hinder the service a person received from the Council. Individuals who complained could choose to remain anonymous, but the difficulty in that was that they would not receive a response. It was important to ensure that residents felt confident to complain and that the process was transparent.
8. She would review how to make it easier for staff members to make complaints on behalf of residents.
9. Members were informed that complaints reporting needed to be refined and that real-time dashboards open to service managers and Members to see complaints and feedback - possibly by Division - were being developed and suggested that it would be good to get Members involved in testing.
10. She noted the Chairman's comment of the past initiative called 'Rapid Improvement Events' where potential areas of concern were highlighted and areas of risk were investigated by a group of staff who had the knowledge within that service.
11. That it was difficult to align the number of complaints with the total number of enquiries that the Council received, as not all enquiries were centrally received. However, it was noted that there were approximately 250,000 calls through the contact centre and 5.3 million web hits last year.
12. That there was an employee's recognition system within each department with localised awards, as well as a centralised way to

recognise good customer service with the TOWER awards - which was in the process of being rebranded.

13. That a Member comment on an application which would randomly select positive comments made about staff to their managers was useful, as was mention of a flagging system allowing trend analysis of common areas of complaint dealt directly with the service area.

Actions/ further information to be provided:

A10/19 - The Customer Relations and Service Improvement Manager would look into how many Members used the email service which would send and log residents' enquiries to the relevant contact centre.

RESOLVED:

That the Audit and Governance Committee noted the report.

43/19 RISK MANAGEMENT REPORT [Item 7]

Witnesses:

Cath Edwards, Service Improvement and Risk Manager
Russell Banks, Orbis Chief Internal Auditor

Key points raised during the discussion:

1. The Service Improvement and Risk Manager introduced the report and informed the Committee that the independent review of strategic risk management would be led by Gallagher Bassett insurers.
2. The level of risk maturity will be assessed through a series of interviews with a number of stakeholders from across the organisation and reported to the Corporate Leadership Team (CLT). Findings will be collated at the end of November with the aim of reporting back to the Committee's December meeting.

In response to Member queries:

3. The Service Improvement and Risk Manager stated that the risk of Brexit (reference S3) was an umbrella risk underpinning many of the risks in the strategic risk register and directorates within the Council. European employees were being supported and an effective commissioning strategy concerning the Provider Market (reference S8), would contain both in- house and privately contracted services.
4. With regards to SEND (Special Educational Needs and Disability) (reference S9), the Orbis Chief Internal Auditor informed Members that cost potentials of changes to future transport provision were not audited. The Chairman in agreement with Members noted that this was a risk and the Committee would look to include this as part of their governance review in the changes to scrutiny arrangements.
5. There was no life-time evaluation of SEND transport users as Internal Audit looked at compliance with policies in the system, rather than the type of policy created externally by the service.

Actions/ further information to be provided:

1. A11/19 - Findings on the levels of risk maturity assessed through a series of interviews with stakeholders across the organisation, would be collated at the end of November with the aim of reporting back to the Committee's December meeting.
2. A12/19 - The Chairman in agreement with Members noted that this was a risk and the Committee would look to include this as part of their governance review in the changes to scrutiny arrangements.

RESOLVED:

That the Committee:

1. Considered the contents of the report and confirmed they were satisfied with the risk management arrangements;
2. Reviewed the strategic risk register and determined no matters to be drawn to the attention of the Chief Executive, Cabinet, Cabinet Member or relevant Scrutiny Committee.
3. Noted the upcoming independent review of the strategic risk management arrangements.

44/19 EXTERNAL AUDIT PERFORMANCE REPORT 2018/19 [Item 8]

Witnesses:

Kevin Kilburn, Strategic Finance Manager – Corporate
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Strategic Finance Manager – Corporate introduced the report and commented that there were a number of pressures across Local Government including: a more in-depth scrutiny over audits, the statutory deadline of the statements of accounts' was brought forward to the 31 July and the McCloud judgement over pensions. Out of 486 local authorities 210 did not have their accounts signed off by the deadline. Surrey County Council met that deadline, which was especially pleasing as this was the first year of the centre of excellence sharing resources to deliver the financial statements jointly with East Sussex County Council and Brighton & Hove City Council. Therefore achieving a clean audit by the deadline was a very good performance, representing good working between the finance and audit teams.
2. One area of the 2018/19 Performance Management Framework was not met, which was the client satisfaction score rated at 7, with its target at 9/10. In response to the Chairman's query, the Strategic Finance Manager – Corporate remarked that the audit of the valuation of schools took longer than expected as Grant Thornton had to seek specialist advice from external valuers for the valuation of land and buildings. This was driven by an increased valuation which adjusted the erroneous interpretation of valuer guidance five years ago.

3. The Engagement Lead from Grant Thornton, also explained that additional work had been required in relation to the valuation of assets at the Eco Park.

Actions/ further information to be provided:

None.

RESOLVED:

That the Audit and Governance Committee considered the contents of the report.

45/19 EXTERNAL AUDIT: ANNUAL AUDIT LETTER [Item 9]

Witnesses:

Tom Beake, Grant Thornton
Ciaran McLaughlin, Grant Thornton
Kevin Kilburn, Strategic Finance Manager – Corporate

Key points raised during the discussion:

1. The representatives from Grant Thornton introduced the report and stated that it was a less technical and more accessible report than the 2018/19 Audit Findings Report. It was published on the Council's website as a requirement of national audit practice.
2. In response to a Member query on the implications of Brexit and possible property devaluation, the Strategic Finance Manager – Corporate explained that any change in valuations would be reflected in the Comprehensive Income and Expenditure Statement, but would have no adverse effect on the General Fund or the council tax.

Actions/ further information to be provided:

None.

RESOLVED:

That the Audit and Governance Committee noted the contents of the Annual Audit Letter.

46/19 INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 (01/04/19 - 30/06/19) [Item 10]

Witnesses:

David John, Audit Manager
Russell Banks, Orbis Chief Internal Auditor

Key points raised during the discussion:

1. The Audit Manager introduced the report and provided a summary:

- Of the 13 formal audits in quarter 1, 2 received minimal assurance which were: Schools Safeguarding Arrangements and the Surrey Pension Fund Administration.
 - More specifically, minimal assurance was given to the School Safeguarding Team due to significant control weaknesses within the way the team previously operated, exacerbated by large-scale staffing changes as a result of the directorate restructure.
 - Surrey Pensions Fund Administration received that level of assurance due to long-term weaknesses in process and control, and inefficiencies in team working practices. To address this, there was a new interim Pensions Manager appointed and a Governance Board was set up between Finance, Audit and Pensions Teams which continues to track recommendations. Deadlines for agreed actions would not be met due to resourcing and complexity, with the follow up audit now scheduled in quarter 3.
2. Members were concerned that only 1 out of 13 audit reports in quarter 1 received substantial assurance and asked how these compared to last year and how they were being addressed. In response, the Audit Manager commented that it was partly positive as it showed audit resource was focussed on the highest risk areas, which was indicative of a good relationship between senior management and Internal Audit. The Orbis Chief Internal Auditor noted that this pattern of assurance mirrored that of his 2018/19 Annual Audit Opinion for the Council, overall which was Partial Assurance.
 3. The Audit Manager notified the Committee that a verbal update relating to the follow-up audit for Surrey Pension Fund Administration could be reported to the Committee in December.
 4. In response to the Orbis Chief Internal Auditor proposing that someone from the service concerning the Schools Safeguarding Arrangements would report to the Committee, Members agreed that the Chairman would write to the Chairman of the Children, Families, Life-long Learning and Culture Select Committee drawing attention to the report.
 5. The Audit Manager responded to a Member query by stating that there were no historical records prior to 2017 concerning Schools Safeguarding Arrangements due to bad practice. The majority of records were kept on email and those records were lost when staff left the team as there was no central repository. It was hoped that the new IT platform would resolve that issue once it was approved.
 6. In response to a Member query, the Orbis Chief Internal Auditor and the Audit Manager informed the Committee that the problem of self-assessment questionnaires not being submitted by the school safeguarding team was being addressed. A new online tool was purchased to allow self-evaluation of safeguarding arrangements which logged records centrally.

Actions/ further information to be provided:

1. A13/19 - The Audit Manager notified the Committee that a verbal update relating to the follow-up audit for Surrey Pension Fund Administration could be reported to the Committee in December.

2. A14/19 - The Chairman would write to the Chairman of the Children, Families, Life-long Learning and Culture Select Committee drawing attention to the report on the Schools Safeguarding Arrangements.

RESOLVED:

That the Committee noted the report and considered that no further action was required in response to issues raised.

47/19 GOVERNANCE REVIEW: CHANGES TO SCRUTINY [Item 11]

Witnesses:

Vicky Hibbert, Governance Lead Manager - Legal and Democratic Services
Ross Pike, Committees Business Manager

Key points raised during the discussion:

1. The Governance Lead Manager explained that in agreement with the Corporate Leadership Team (CLT) and the Chief Executive of the Council, as part of its governance role the Committee was charged with the responsibility to undertake a review of the changes to the Council's scrutiny arrangements decided in May 2019.
2. In response to the Chairman's question on the discussions within the Select Committee Chairmen and Vice-Chairmen's Group on the changes to the scrutiny arrangements, Members were told that the review should be independent so should come from the Audit and Governance Committee.
3. Overview was encompassed with scrutiny and the review would be a Member led exercise, with support from Democratic Services.
4. The Committee was tasked to agree the membership within the Terms of Reference of the proposed Audit and Governance Task Group, Members were recommended that it would be composed of three or four Members of the Committee.
5. Members discussed that a Task Group of four would not be beneficial as the Committee was only composed of six Members and each had a different knowledge of select committees.
6. In response to Member questions it was explained that in addition to the Local Government Act 2000, when exercising its functions local authorities 'must have due regard' to the statutory guidance from the Ministry of Housing, Communities and Local Government. In accordance with best practice standards, local authorities also 'may have regard' to other material such as the Centre for Public Scrutiny's 'Scrutiny Evaluation Framework' to assist their overview and scrutiny function.
7. Members discussed whether they should attend the four select committee meetings as part of their governance review. A Member had reservations due to their borough and district commitments and external employment. He reiterated that Members were volunteers not 'workers'/paid professionals.
8. In response to Members queries, the Committees Business Manager stated that the two supporting reports on this item were written to be accessible to Members, they did not need specialist knowledge to undertake the governance review.

9. The Governance Lead Manager reminded Members that the select committees were webcast for those who could not attend them in person and the Committees Business Manager stressed that an objective governance review was based on the select committees' compliance with good scrutiny practice as outlined in the two supporting reports, not by obtaining the 'feeling' of the meeting.
10. In response to Member queries, the Governance Lead Manager informed the Committee that the rationale behind changing the Council's select committee structure was not a resourcing issue. It was as a result of the Centre for Public Scrutiny's 'Northamptonshire: Scrutiny Improvements' report which advocated fewer committees and a simpler structure. At Members' request, a recommendation to ensure the structure of the select committees would not change in May 2020 would be included in the Task Groups' updated Terms of Reference.
11. In order to allow the new scrutiny arrangements to embed, Members were advised by the Governance Lead Manager and the Committees Business Manager that the report from the Task Group should go to the Audit and Governance Committee in May 2020 - it would be a Task and Finish Group. Updates to the Committee before that should be documented as written reports rather than as verbal discussion items.

Action/further information to be provided:

1. A15/19 - When possible, Members to attend and/or watch the webcast of the four select committees meetings as part of their governance review over scrutiny.
2. A16/19 - A recommendation to ensure the structure of the select committee will not change in May 2020, will be included in the Task and Finish Group's updated Terms of Reference.

RESOLVED:

1. Members agreed that the governance review of the changes to the scrutiny arrangements did fall within the Committee's governance responsibility.
2. That it was to be a Task and Finish Group with whole Committee membership and a report to the full Audit and Governance Committee in May 2020 – making allowances for Members with considerable district and borough commitments and external employment.

48/19 DATE OF NEXT MEETING [Item 12]

The date of the meeting was noted as 12 December 2019.

Meeting ended at: 1.19 pm

Chairman

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Audit & Governance Committee

17 December 2019

RECOMMENDATIONS TRACKER AND BULLETIN

PURPOSE OF REPORT:

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

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as Annex A, and the Committee is asked to review progress on the items listed.

RECOMMENDATION:

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

REPORT CONTACT: Joss Butler, Committee Manager
joss.butler@surreycc.gov.uk or 020 8541 9702

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> <p>July 2019 – The Committee agreed to keep this item ongoing until further information is received.</p>
A2/19 (reinstated)	07/02/19 (originally marked as complete at the April 2019 Committee)	Internal Audit Progress Report - Quarter 3 (01/10/18 - 31/12/18)	The Committee to receive an update on the findings and the progress on agreed actions for the Children’s Families & Learning Care Assessments audit at the Committee meeting in September 2019.	Audit Manager	<p>August 2019 – The Audit Manager reported that the follow-up audit to the CFLC Care Assessments audit would not be ready for September’s meeting. However a verbal update would be provided in due course.</p> <p>18/11/2019 - The Audit Manager to update the Committee.</p>
A8/19	29/07/2019	Management system performance	As part of the Committee’s governance role, the Chairman and Vice-Chairman in agreement with Members and officers will raise the issue of the performance of the management system which tracked high priority actions, to Cabinet.	Chairman Vice-Chairman	<p>September 2019 – In the first instance, the issue of the performance of the management system which tracked high priority actions would be raised in the Select Committee Chairmen and Vice Chairmen’s Group.</p> <p>November 2019 – Chairman to provide a verbal update at Committee meeting in December 2019.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A11/19	26/09/2019	Levels of risk maturity - Interviews	Findings on the levels of risk maturity assessed through a series of interviews with stakeholders across the organisation, would be collated at the end of November with the aim of reporting back to the Committee's December meeting.	Cath Edwards, Service Improvement and Risk Manager	December 2019 - Verbal update to be provided at the December 2019 meeting.
A13/19	26/09/2019	Follow-up audit - Surrey Pension Fund Administration	The Audit Manager notified the Committee that a verbal update relating to the follow-up audit for Surrey Pension Fund Administration could be reported to the Committee in December.	Audit Manager	18/11/2019 - The Audit Manager to update the Committee.
A15/19	26/09/2019	Select Committee meetings – Members to attend	When possible, Members to attend and/or watch the webcast of the four select committee meetings as part of their governance review over scrutiny.	Members	October- The Chairman and Mr Hawkins attended the Resources and Performance Select Committee.

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

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	26/07/2019 – The Chief Executive has spoken to the Leader on this and it will be completed for September-update requested. 17/09/2019 – Surrey County Council is planning to release an annual report on its performance later in the financial year, which will include key achievements. Following its publication, the Chief Executive would be pleased to attend a meeting of this Committee to discuss any elements of this further. November 2019 – Surrey County Council's Impact Statement 2019 that went to Cabinet in October, was circulated to Members.
A10/19	26/09/2019	Members' email service	The Customer Relations and Service Improvement Manager would look into how many Members used the email service which would send and log residents' enquiries to the relevant contact centre.	Customer Relations and Service Improvement Manager	20/11/19 – Circulated to Members.
A16/19	26/09/2019	Structure of Select Committees	A recommendation to ensure the structure of the select committee will not change in May 2020, will be included in the Task and Finish Group's updated Terms of Reference.	Governance Lead Manager/Committees Business Manager	November 2019 – As requested, the Terms of Reference for the Committee's Task and Finish Group has been updated – please see the attached document.
A14/19	26/09/2019	Schools Safeguarding Arrangements	The Chairman would write to the Chairman of the Children, Families, Life-long Learning and Culture Select Committee drawing attention to the report on the Schools Safeguarding Arrangements.	Chairman Committee Manager	November 2019 – Action completed. The Chairman briefed the Select Committee Chairman on the Committee's concerns.

Audit & Governance Committee Recommendations Tracking

A12/19	26/09/2019	Risk Management Report	With regards to SEND (Special Educational Needs and Disability), the Orbis Chief Internal Auditor informed Members that cost potentials of changes to future transport provision were not audited. The Chairman, in agreement with Members, noted that this was a risk and the Committee would look to include this as part of their governance review in the changes to scrutiny arrangements.	Chairman Members	Item added to log of key concerns related to the governance review.
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TERMS OF REFERENCE

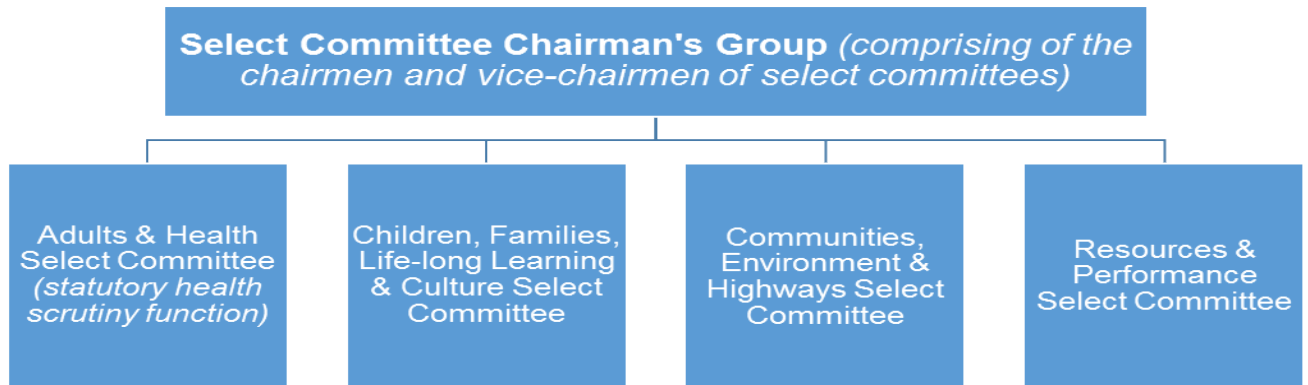
AUDIT AND GOVERNANCE COMMITTEE TASK AND FINISH GROUP

2019/20 Review of the Effectiveness of the Council’s Scrutiny Function

Membership of the Effectiveness of Scrutiny Task and Finish Group – whole Committee membership.

Purpose of the task and finish group:

- 1 In May 2019 the County Council approved a new scrutiny structure as set out below.



- 1 In addition, the Housing, Communities & Local Government Select Committee ran an inquiry into the effectiveness of local government overview and scrutiny during 2017-18 and made recommendations to the Government¹ and although the majority were not accepted it did lead to the publication of the Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities in May.
- 2 It was agreed that the Audit and Governance Committee, as the Committee charged with responsibility for governance, is best placed to undertake a review of the effectiveness of the Council’s scrutiny function on behalf of the County Council and establish a Task and Finish Group at the September committee meeting to carry out the 2019/20 review.

Scope of the review:

- 3 The review will examine the effectiveness of the Council’s select committees and compliance with the new Statutory Guidance as well as undertake an assessment of the effectiveness of the scrutiny function against the Centre for Public Scrutiny’s ‘Scrutiny Evaluation Framework’. The review will not seek to make proposals to make changes to the structure of the scrutiny function.

The review:

- 4 A number of supporting documents will be provided to the task and finish group to enable members to fully understand the role of scrutiny and best practice requirements prior to starting the review.

¹ Housing, Communities & Local Government Select Committee, *1st Report – Effectiveness of Local Authority Overview & Scrutiny Committees* available at: <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/369/36902.htm> (As accessed 13 May 2019).

5 Key areas of the review include:

Ministry of Housing, Communities and Local Government (MHCLG) - Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities

6 A self-assessment will be completed using the criteria set out within the new Statutory Guidance to assess compliance (Annex 1). Documents will also be collected from the Democratic Services team to evidence compliance with the various aspects of the Guidance.

Centre for Public Scrutiny (CfPS) – The Scrutiny Evaluation Framework

7 The CfPS has produced a framework to assist with reviewing, evaluating and improving local government scrutiny and governance arrangements (Annex 2). This sets out various characteristics of good scrutiny that the Audit and Governance Committee can use to undertake a self-assessment of the scrutiny function against the best practice standards set out in the document.

Stakeholder questionnaires

8 Questionnaires could be sent out to a number of stakeholder groups to get their feedback and thoughts on the effectiveness of the scrutiny function and the Council's four select committees.

Stakeholder interviews

9 It is proposed that a cross section of members and officers will be consulted in order to give a practical balance to the review. It is suggested that the following stakeholders be consulted:

- Chief Executive
- Leader of the Council
- A Cabinet Member
- Select Committee Chairmen and Vice-chairmen
- The Chairman of the Select Committee Chairman's Group
- Officers that have recently attended select committee meetings as witnesses

Observation of Select Committee meetings and task and finish group meetings

10 Although limitations on time might prevent attendance at all select committees meetings, it is proposed that members of the task and finish group attend a range of select committee meetings to observe how these run.

Timeline:

11 The final report on the 2019/20 review will be presented to the Audit and Governance Committee when the review has concluded.

Support to the task and finish group:

12 The task and finish group will be fully supported by Vicky Hibbert, Governance Lead Manager (Statutory Scrutiny Officer), Ross Pike, Committees Business Manager and Joss Butler, Committee Manager from the Democratic Services team.

AUDIT & GOVERNANCE COMMITTEE
17 DECEMBER 2019

TREASURY MANAGEMENT MID YEAR REPORT

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during the first half of 2019/20, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management.

RECOMMENDATIONS:

The Audit & Governance Committee is asked to note the content of the Treasury Management Half Year Report for 2019/20.

BACKGROUND:

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a Treasury Management semi-annual and annual reports.
2. The Authority's Treasury Management Strategy Statement for 2019/20 was approved at the County Council meeting on 5 February 2019. The investment and borrowing of cash exposes the Council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

EXTERNAL CONTEXT:

3. Annex 1 contains commentary on the economic backdrop for 2019/20.

REGULATORY UPDATES:

5. CIPFA Prudential and Treasury Management Codes:

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

MID YEAR REPORT:

6. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. Table 1 below summarises the Council's Balance Sheet position as at 31 March 2019, and shows a net borrowing position of £583m.
7. The Authority's current strategy is to maintain borrowing below the Capital Financing Requirement, sometimes known as internal borrowing. Internal borrowing allows the Council to utilise its internal cash balances on a temporary basis (i.e. working capital and usable reserves) which are not required in the short to medium term. This approach reduces market and credit risk for the investment portfolio and reduces borrowing costs. The Balance Sheet position as of 31 March is summarised in Table 1 below:

Table 1: Balance Sheet Summary

	31.3.19 Actual £m
General Fund CFR	1,235.0
Less: PFI Liabilities	227.0
Gross Borrowing Requirement	1,008.0
Less: usable reserves and working capital	425.0
Net borrowing requirement:	583.0

8. Table 3 illustrates the movement from 31 March to 30 September 2019. The net borrowing requirement increased by £19m, from £635m to £654m. External borrowing reduced by £11m from £666m to £655m. During the period £30m of external longer term borrowing was undertaken with the Public Works Loan Board. Summarised in Table 2 below:

Table 2: New Borrowing to 30 September 2019

Principal (£m)	Maturity Date	Term	Interest Rate	Type
10.0	16-Sep-34	15 Years	1.29%	E.I.P
10.0	23-Sep-34	15 Years	1.30%	E.I.P
10.0	26-Sep-34	15 Years	1.20%	E.I.P

Table 3: Borrowing Position

	31.3.19 Balance £m	Movement £m	30.9.19 Balance £m	30.9.19 Weighted average rate %	30.9.19 Weighted average maturity years
Public Works Loan Board	387	30	417	4.0%	31 years
Long term commercial loan	10		10	5.0%	34 years
Local authorities (short-term)	255	-52	203	0.8%	< 1 year
Surrey Police & Crime Commissioner	14	11	25	0.7%	0 days
Total borrowing*	666	-11	655		
Total Investments	-31	30	-1		0 days
Net Borrowing	635	19	654		

9. The Authority's main objective when borrowing has been to strike a balance between securing low interest rates and achieving cost certainty over the period for which funds are required. This position provides short term savings with the flexibility to secure longer dated loans as and when the level of funds available for internal borrowing reduces, or financial forecasts indicate that external borrowing rates may increase.

10. In furtherance of these objectives, no new long term borrowing was undertaken during the first half of 2019/20, internal borrowing was maximised and short term borrowing was utilised to manage cash flow. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

11. The "cost of carry" analysis performed by the Authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

Investment Activity

12. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2019/20 the Authority's average daily level of investments was £42m compared to £39m for the first six months of 18/19.

13. The Council can place cash on deposit on the money market through brokers, directly with counterparties, through the use of call accounts, money market funds or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits have been agreed during 2019/20. All investments have been made through overnight money market funds.

14. The weighted average return on all investments the council received in the quarter to 30 September 2019 is 0.72%. This compares to the 0.57% average 7-day London Interbank Bid Rate (LIBID) for the same period.

Table 4: Investment Benchmarking

	Average 7-day LIBID	Weighted return on investments
2019/20 quarter 2	0.57%	0.71%
2019/20 quarter 1	0.57%	0.75%
2018/19 total	0.63%	0.51%
2017/18 total	0.21%	0.22%

15. Both the CIPFA Code and the government's Investment Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. In furtherance of these objectives, the Council's strategy of maximising internal borrowing has reduced the cash available for investment, and reduced the scope for making longer-term deposits.

Other Investment Activity

16. Although not currently classed as treasury management activities and therefore not covered by the CIPFA Code, the Authority also holds £134m of investments in directly owned investment property (excluding assets under construction) and £334m in loans to and shareholdings in its subsidiaries.

17. It is projected that these non-treasury investments will generate £6.8m net investment income for the Authority in 2019/20 after taking account of direct costs and MRP.

Performance Report

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

Table 5: Performance

	2019/20 Budget £m	2019/20 Full year projection £m	Projected Over/ Under(-) £m
Interest Payable	8.5	7.4	-1.1
Interest Receivable	-0.1	-0.5	-0.4

Compliance Report

19. The Director of Finance is pleased to report that all treasury management activities undertaken during the first half of 2019/20 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below. All investments in the first half of the year were deposited in Money Market Funds.

Table 6: Investment Limits

Type	Rating	Limit	Maximum During the Year	Value at 30/9/19	Complied
Aberdeen – MMF	AAA	£25m	£25m	£1.4m	✓
Insight – MMF	AAA	£25m	£25m	0	✓
JP Morgan – MMF	AAA	£25m	£25m	0	✓
Morgan Stanley – MMF	AAA	£25m	£25m	0	✓
Goldman Sachs – MMF	AAA	£25m	£25m	0	✓
Money Market Funds	AAA			£1.4m	✓

20. Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 7 below. The Authorised Limit is a statutory limit set by Council which cannot be breached. The Operational Limit is the day to day limit which may be breached on occasions due to variations in cash flow.

Table 7: Debt Limits

	External Debt 30.9.19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied
Borrowing	655	1,108	1,696	✓

21. The highest level of external debt during the first six months of 2019/20 stood at £688m during April, significantly below the Authorised Limit and the Operational Boundary.

Treasury Management Indicators

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

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

	Amount	Historical experience of default	Adjustment for market conditions	Estimated maximum exposure to default
	£000s	%	%	£000s
	30/09/2019	30/09/2019	30/09/2019	30/09/2019
	(a)	(b)	(c)	(a x c)
Deposits with banks and financial institutions				
Local Authorities	0	0.00%	0.00%	0
AAA rated counterparties	1,400	0.00%	0.00%	0
AA rated counterparties	0	0.03%	0.03%	0
A rated counterparties	0	0.08%	0.08%	0
Other counterparties				
Total	<u>1,400</u>			<u>0</u>

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

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

As at 30 September 2019, all investments were held in Money Market Funds with instant access.

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

	30.9.19 Actual	2019/20 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0%	25%	✓

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

	30.9.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	36%	50%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	1%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	63%	100%	25%	✓

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

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

	30.9.19 Actual	2019/20 Limit
Principal invested for more than 365 days	0%	35% of value of investments held
Complied	✓	✓

IMPLICATIONS:

Financial

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

Equalities

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

Risk management

31. See paragraphs 22-28

WHAT HAPPENS NEXT:

- a. The Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- b. In line with the requirements of CIPFA's Code of Practice for Treasury Management, a full-year report for 2019/20 will be brought to this Committee after financial year end.
- c. The Treasury Team will prepare the annual Treasury Management Strategy, which will be presented to this Committee on 6 February 2020 for approval.

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Sources/background papers:

Capital Budget and Treasury Management Strategy

2019/20 Prudential Indicators

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

The Prudential Code 2018

ANNEX 1 – Economic Context & Regulatory Changes

UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as uncertainties impacted on business planning and decision-making.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction.

After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

On Wednesday 9th October, in a move that caught the sector by surprise, the PWLB increased the margin applied to loan rates by 100 basis points; the new margin above gilts is now 180 basis points for certainty rate loans. This shift in policy has been implemented by HM Treasury and is explained by an increase in the use of PWLB loans at some authorities in recent months as the cost of borrowing has fallen to record lows. The impact of this 1% jump in all PWLB interest rates and will make alternatives more attractive, such as longer term local authority to local authority and any offer from the UK Municipal Bonds Agency.

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AUDIT & GOVERNANCE COMMITTEE
17 DECEMBER 2019

Internal Audit Progress Report – Quarter 2 (01/07/19 – 30/09/19)

SUMMARY AND PURPOSE:

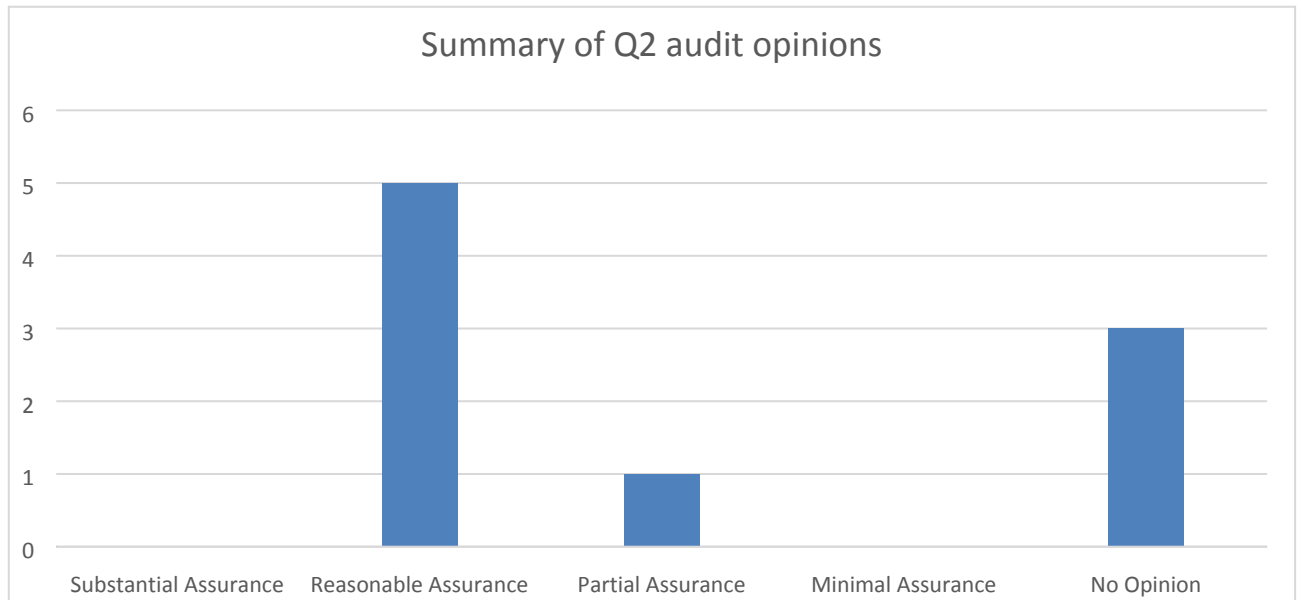
1. The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2019 and 30 September 2019.
2. The current annual plan for Internal Audit is contained within the Internal Audit Strategy and Annual Plan 2019-20, which was approved by Audit and Governance Committee on 8 April 2019.

RECOMMENDATIONS:

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

BACKGROUND:

4. Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A.
5. Reviews completed in this quarter included a mixture of planned and unplanned audits, grant certification work, and irregularity work. Overall, of the 9 formal audits finalised during the quarter (excluding grant and irregularities), 5 received 'reasonable assurance', 1 received 'partial assurance' and 3 received 'no opinion' being either position statements or briefings for management.



6. Quarter 2 also saw a number of grant claim reviews completed by September 2019, including:
- Four Highways related grant claims for Department for Transport;
 - A Troubled Families grant return for the Ministry of Housing, Communities and Local Government; and
 - Two grant returns undertaken in respect of European Grant funded projects.
7. Formal follow up reviews continue to be carried out for all audits where ‘minimal assurance’ opinions have been given and for higher risk areas receiving ‘partial assurance’. There were two follow-up reviews completed in quarter two of 2019/20 and it is pleasing to report that in both cases we saw a clear improvement in the control environment:
- Surplus Properties, where the audit opinion was raised from partial assurance to reasonable assurance following the review; and
 - Annual Car User Lump Sum, where the audit opinion was also raised from partial assurance to reasonable assurance.
- In both instances management had implemented the expected control improvements from the agreed actions, which enabled us to place greater assurance on the system of control in place.
8. Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these, and also bring them to the attention of the Corporate Leadership Team. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix A.
9. Appendix A also provides details of counter fraud investigations completed, information on the tracking of high priority actions and progress against our performance targets.

IMPLICATIONS:

9. Financial;
Equalities;
Risk management; and

Value for money

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

<u>WHAT HAPPENS NEXT:</u>

11. See Recommendations above.

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Sources/background papers: Internal Audit Strategy and Annual Audit Plan 2019/20.

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Internal Audit and Counter Fraud Quarter 2 Progress Report 2019/20

CONTENTS

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

1. Summary of Completed Audits

Collusion in Procurement

- 1.1 This audit was carried out in line with good practice guidance issued by the Organisation for Economic Cooperation and Development (OECD) called 'Fighting Bid Rigging in Public Procurement'. The purpose of this was to provide assurance that the procurement processes within the council had appropriate controls to prevent:
- *Cover bidding* (where a competitor agrees to submit a non-competitive bid that is too high to be accepted, or contains terms unacceptable to the buyer);
 - *Bid suppression* (a competitor agrees not to bid or to withdraw a bid from consideration);
 - *Market sharing* (a competitor agrees to submit bids only in certain geographic areas, or only to certain organisations); and
 - *Bid rotation* (competitors agree to take turns at winning business to share out an equal 'slice of the pie').
- 1.2 Key controls reviewed in our audit included those to ensure measures were taken at all stages of the procurement process to detect and prevent collusion, and that all tender and contract information issued to suppliers and bidders had specific anti-collusion clauses included.
- 1.3 We identified that the principles of the OECD good practice guide were partly embedded into procurement practice, with expected controls in place over tender submission, and the reviewing and moderating the scoring of tenders.
- 1.4 The audit did identify two areas for improvement. The first was in relation to an apparent lack of competition in some tenders (low numbers of bids received), the second around non-compliance in bidding practice (bidders not completing their bid in accordance with the specification). In both cases the tender exercise did have mitigating reasons to explain these anomalies, though we were pleased to see that management have taken the wider implications on board and have applied the lessons learned to improving the overall processes.
- 1.5 We also agreed with management that a refresh of the Procurement Standing Orders (dated December 2017 at the time of audit) would also be of value. A new draft was in progress to be incorporated into the Constitution whilst our audit was underway, and the agreed action arising from the audit was to consider the value of a more formal annual review.
- 1.6 Overall, based on our findings and general level of controls within the tested processes, we were able to give an opinion of Reasonable Assurance in this area.

E-Recruitment System

- 1.7 With effect from April 2019, the three Orbis partner authorities implemented a joint Applicant Tracking System (ATS) called TribePad, designed to converge recruitment processes administered for all three bodies by Business Operations and replace the various versions of the Talentlink system.
- 1.8 At the time of our review some of the implementation was still in progress. As a result, our input was focused upon providing advice on key controls being developed including:
- The implementation of effective governance structures, including ensuring that roles and responsibilities are clearly defined and understood;
 - Restriction of system access to appropriately authorised individuals;
 - System permissions being aligned correctly to job functions; and
 - Ensuring that the recruitment process was fair, open and transparent in line with the council’s sovereign policies.
- 1.9 The ongoing nature of development meant that we did not give an opinion in respect of overall assurance, and this audit was issued as a no-opinion position statement as a result. We were, however, able to conclude that the expected key controls within the overall recruitment area were robust and under continual review.
- 1.10 Our audit identified a number of areas for additional improvement around transparency of change management approval, and in preventing the publication of job advertisements by managers without the knowledge of recruitment teams. Most significant of our findings was the identification of an area that could be non-compliant with GDPR requirements (where hiring managers could see details of ‘new’ applications that were never actually formally submitted): as a result of the finding a task was commissioned with suppliers TribePad to resolve this issue immediately.

Making Tax Digital

- 1.11 HMRC has introduced new rules for submitting VAT returns, which they refer to as ‘Making Tax Digital for VAT’ (MTD). Essentially, a digital link between business systems must be established to replace the manual entry of VAT data via the HMRC website. For complex bodies, which includes the county council, HMRC has not required this electronic process to be in place until 1 October 2019.

- 1.12 There is a two-stage process in place:
- Stage 1: a 'soft-landing period' where digital information can be submitted to the Application Programming Interface (API) platform (but allowing for some 'copy/cut and paste' functionality); to be followed by
 - Stage 2: from 1 April 2020 a fully digital linkage must be in place between source systems and HMRC without human intervention.
- 1.13 The proposed solution to this involves all of the partners across Orbis, and thus an initial audit review was commissioned to examine preparedness over arrangements to ensure compliance with Stage 1.
- 1.14 We found that the solution for Stage 1 had been developed in-house and successfully tested at Brighton & Hove City Council for the submission of the March 2019 VAT return for the 'Homes for the City of Brighton and Hove Design and Build Company'. We were satisfied that adequate controls and protocols were in place to ensure the collation and accuracy of transferred data. This in-house solution will have a phased roll-out across all Orbis partners to ensure a smooth transition.
- 1.15 Our audit was able to add value into the current arrangements by agreeing actions to ensure more representative membership of ongoing working groups and increasing frequency of meetings. We also made suggestions for improvement in the areas of project planning, risk management, and documentation of the revised processes.
- 1.16 The ongoing nature of this developing process meant that we did not give an opinion in respect overall assurance, but instead issued a non-opinion position statement. We will revisit to review arrangements ahead of Stage 2 being due.

Surrey Virtual School (Purchasing Arrangements)

- 1.17 This audit was added to the approved 2019/20 annual audit plan following a request from management for additional assurance work after potential control weaknesses were identified during the restructuring of the Children's, Families, Learning and Culture directorate.
- 1.18 Surrey Virtual School (SVS) is responsible for raising the education standard for the council's Looked after Children (LAC) by collating information and tracking their educational progress as if they were contained within a single school. At the time of our audit the council had around 970 LAC (of whom approximately 600 were of school age). Funding for SVS activity comes via a

proportion of the Pupil Premium payment received from the DfE (currently £2,300 in total for each school-aged LAC).

- 1.19 Following discussion with management, our audit focused on providing assurance over a number of control objectives, namely:
- Purchases are supported by a clear business case;
 - Orders and payments are made in line with the council’s finance and purchasing procedures;
 - Management has clear visibility over outstanding liabilities (such as licenses, subscriptions and equipment orders);
 - Budgetary control is robust; and
 - The council has a clear policy over the use of Pupil Premium funding in respect of SVS.
- 1.20 Whilst there was some evidence that some historic expenditure may not have been fully supported by transparent business cases, we were able to provide assurance to management that for the most part the control environment in place was effective during the period of transitioning the SVS from old to new structures following the directorate reorganisation.
- 1.21 Purchasing arrangements were compliant with council policy and were evidenced through clear audit trails and authorisation processes. We saw evidence of procurement waivers having been requested and granted on the few occasions that they were required.
- 1.22 We were able to give an opinion of Reasonable Assurance as a result, agreeing four medium priority actions to ensure legacy issues, such as inefficient use of funds for external venue hire, or on equipment that had little take-up by LAC, were addressed.

Annual Car User Lump Sum (ACULS) follow-up audit

- 1.23 The ACULS payment is made to officers who meet the stipulated criteria when using their personal vehicle for business purposes. Our original audit of this system in November 2018 identified numerous control weaknesses throughout the entire process, and an opinion of Partial Assurance was given as a result.
- 1.24 This follow-up review identified that the expected improvements to the control environment had been implemented as expected, though later than planned due to unforeseen complexity in designing a solution. A robotics solution has been implemented to automate as much of the process as possible and introduce appropriate gateway checks to ensure appropriate criteria for

payment are met. A revised Travel and Expenses policy has been introduced and communicated to staff, which was less ambiguous than the previous iteration.

- 1.25 As a result of this follow-up review, we were able to provide assurance that the following key controls were now in place and operating as expected:
- Staff were only paid ACULS if they met the basic criteria in terms of exceeding the threshold level for annual total business miles driven in-year;
 - Staff were paid in the correct banding, dependent upon mileage;
 - Managerial approval for claims was in place for all applications; and
 - Claims for multiple years of ACULS were prevented, as per the policy.
- 1.26 Our audit did identify that there remained some elements of the process that are yet to be fully automated. The most important of these is the link between the mandatory checking of driver documentation that is recorded on SAP (driving licence, insurance etc.) to the eSuite form through which claims for ACULS are made. At present, this control is reliant upon managers confirming on the ACULS claim form that they have checked the documentation prior to approving it. An action was agreed to address this issue moving forward.
- 1.27 Given the improvement to the control environment and the rewriting of the underpinning policy for ACULS, we were able to give an opinion of Reasonable Assurance following this review.

Surplus Assets follow-up audit

- 1.28 Our original audit of the council's approach to managing surplus property was published in April 2018 and provided an opinion of Partial Assurance. Among the issues previously identified were delays in decision-making by services in determining the future usage of surplus property, and a number of vacant properties that had stood empty for a disproportionate length of time.
- 1.29 Since this audit the Cabinet have approved a new Asset and Place Strategy (2019), which introduced new procedures for the management of surplus properties within the estate.
- 1.30 We identified that the new Strategy had effectively addressed the control weaknesses identified in the original audit in all but two cases. The first of these outstanding actions related to the documentation of process and procedure, which was partially complete but which did not fully reflect the changes brought about by the revised Strategy.

- 1.31 The second outstanding issue was in respect of compliance with the council's Insurance Policy: whilst there was adequate insurance in place, a key element of the current policy is for the council to provide the Insurer with a quarterly list of surplus properties, which was not happening.
- 1.32 New actions were agreed with management to address these two areas, and overall we were able to give a revised opinion of Reasonable Assurance.

Health & Safety

- 1.33 In 2019/20, the Health and Safety function was moved out of HR&OD and under the Director of Community Protection and Emergencies, within the Surrey Fire and Rescue Service. We undertook a review of the new arrangements to provide assurance that the service was being effectively delivered and integrated across the council.
- 1.34 The key control objectives reviewed during this audit included:
- Ensuring that there were effective management arrangements in place to protect the health and safety of employees, services users, suppliers and members of the public both within council premises, and for those interacting with the council (so far as reasonably practicable); and
 - Ensuring that sufficient evidence exists to demonstrate that the council is managing its duties for health and safety in line with legislative requirements.
- 1.35 As a result, we were able to provide assurance over some key areas of activity:
- The council has adopted a risk-based approach to the management of health and safety;
 - There is a clear policy in place across the organisation, which is in line with HSE standards;
 - There is adequate information and opportunity for training made available to staff; and
 - The council consults employees on management of health and safety through the inclusion of union representatives at the Central Joint Safety Committee.
- 1.36 However, we also found that there were opportunities to improve the control environment and processes in place and agreed eleven actions with management to achieve this, three of which were high priority.
- 1.37 Through our findings, we identified that:
- There was an opportunity to improve the take-up of mandatory health and safety training by senior management and staff;

- With the exception of inspections carried out at fire stations, there was no record in place to provide assurance that routine workplace inspections are being carried out across the council estate;
- Property Services could improve the record keeping to demonstrate that regulatory and statutory checks on gas fittings, lifts, water hygiene and electrical safety are being carried out on property where the council is the 'responsible person';
- There were opportunities to improve on the reporting and scrutiny of health and safety risks and incidents both within directorates, and through the Central Joint Safety Committee. This includes the development of key performance indicators for the area; and
- Using the data gathered on the OSHENS system, there were options to learn lessons from past incidents and to better track the implementation of corrective action(s) taken following an event to mitigate the risk of a future recurrence.

1.38 Consequently, our audit concluded with an opinion of Partial Assurance. All actions arising have been agreed with management and will be followed up in due course by Internal Audit to assess the progress made.

Cyber Security

1.39 Cyber-attacks on the council's IT systems and devices are a threat to the security of the council's data, and could have a large adverse impact on service delivery. We undertook an audit of the Authority's high-level arrangements for protecting its systems and services from cyber-attack; including arrangements for effectively responding to a cyber-attack should one occur. A technical audit of network security is planned later in the financial year. The controls for 'Patch Management' were covered only at a high-level, as further, more focused activity is planned in this area later in the financial year.

1.40 We were able to provide Reasonable Assurance over the controls operating within the area under review because our testing found that:

- Logging, monitoring and alerting of anomalous activity takes place, across a range of sources;
- Users are provided with sufficient information regarding cyber security risks and their role in minimising these. This includes mandatory e-learning, a detailed IT Security Policy, and a clear list of user's responsibilities found on the intranet;
- Defences are in place to protect the council's systems, including firewall and anti-virus products, blocking of potentially harmful emails and restriction of USB usage. Defences are regularly tested by external penetration testers; and

- Proactive measures are taken by relevant staff to keep informed of emerging cyber security threats and trends. These measures include subscription to newsletters, reviewing websites, attending conferences and cross-Orbis communication. Appropriate action can then be taken to mitigate risks once these are identified.

1.41 Some areas were, however, identified where arrangements could be further strengthened. These include:

- Strengthening response plans specific to cyber security incidents;
- Including and monitoring cyber security risks (or related risks around loss of IT systems) on the council's main strategic risk register; and
- Introducing web filtering on mobile devices.

1.42 One medium and four low priority actions (one of which has already been implemented) have been agreed to manage the risks associated with these weaknesses.

Waste PFI

1.43 During the quarter a high level review was carried out in relation to the historic management arrangements within the council with regard to the waste PFI contract. In particular, to help identify any opportunities for future learning.

1.44 Due the historic nature of this contract and, in particular the fact that most of the officers involved with it are no longer employed by the Council, our work was relatively limited in scope, focusing on the following:

- General project/contract governance and leadership;
- Decision-making and accountability;
- Roles and responsibilities; and
- Communication, reporting and escalation arrangements

1.45 The results of our work were summarised in the form of a briefing note to the Chief Executive which highlighted potential lessons associated with ensuring that management arrangements are clearly defined and communicated, particularly where they change over time and where there is potential overlap between project management and business as usual activities. We also highlighted the need to properly assess the impact of changes associated with restructuring exercises, especially where key roles and removed.

Other audit activity

Grant claims

- 1.46 Throughout quarter two we undertook the certification of a number of grant claims. These audits do not result in a report, but through the certification process allow services to continue to draw down funding from central government to support key areas of service delivery.
- 1.47 In this period, the grants that we were able to provide an unqualified certification covered:
- Local Transport Capital Block Funding (Integrated Transport & Highways Maintenance 2018/19) for £28.5m;
 - Local Transport Capital Block Funding (Pothole Action Fund 2018/19) for £482k;
 - Local Transport Capital Block Funding (Flood Resilience Fund 2018/19) for £1.4m;
 - A Troubled Families claim, totalling £140k;
 - Semester 2 of the EU funded 'Digi-Tourism' project, totalling c£25k (conversion from €);
 - Semester 2 of the EU funded 'Urban Links 2 Landscape' project, totalling c£13k (conversion from €); and
 - Semester 1 of the EU funded 'IMAGINE' project, totalling c£20k (conversion from €).

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on set out below.

National Fraud Initiative Exercise

- 2.2 The results from this exercise were received on 31 January 2019 and have been prioritised for review over the coming months. Periodic updates on any outcomes from this work will be provided as part of future internal audit progress reports.

Counter Fraud Policies

- 2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit are in the process of reviewing the sovereign strategies to align with best practice and to ensure there is a robust and consistent approach to tackling fraud.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated and are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. This includes an increased emphasis on data analytics. The Fraud Response Plans set out the proactive work plan for Internal Audit in 2019/20. Areas identified include analysis in the following areas:

- Conflict of Interest
- Gifts and Hospitality
- Payments to GPs and Pharmacies
- Purchasing and Fuel Cards

Fraud Awareness

2.6 The team has been refreshing eLearning content to provide engaging and current material available to the whole organisation. This will be run in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. An awareness campaign is planned to coincide with National Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employee Misconduct

2.7 Following a whistleblowing report of an allegation that an employee was manipulating their timesheets, Internal Audit undertook analysis of network activity and timesheet records. The findings were passed to management to proceed with support from HR. The employee subsequently resigned from their post.

Cash Loss

2.8 Internal Audit were asked to undertake a review of cash handling controls at a school following the loss of unbanked income. The review found no evidence of wrongdoing but did identify a number of areas that required improvement. Management actions were agreed as a result of the review.

3. Action Tracking

- 3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 2, 96% of high priority actions due by 30 September 2019 had been implemented.
- 3.2 We are continuing to seek assurance from management that the three high priority agreed actions that are not yet known to be fully implemented (relating to past audits of Traffic Management Signals, and Emergency Planning) remain on target to be completed by the end of quarter three.
- 3.3 We have agreed an extension of the due dates for high priority actions for two audits; for CFL Assessment and Care Plan Management (to the end of quarter 3), and for Pensions Administration (to the end of quarter 4). In both cases the original timeframe set by management proved unachievable given the complexity of the work required and the ongoing nature of action required to fully resolve the issues.

4. Amendments to the Audit Plan

- 4.1 In accordance with proper professional practice, the Internal Audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, no reviews were added to the audit plan during the second quarter (excluding irregularity investigations).
- 4.2 Through the same process, audits could either be removed or deferred from the audit plan and, where appropriate, considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process. To date, no audits have formally been removed from the plan.

5. Internal Audit Performance

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

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
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Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 8 April 2019
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 29 July 2019
	Customer Satisfaction Levels	90% satisfied	A	85% (albeit a small number of returns have been received in year so figures may not be representative of underlying performance)
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	51.4% completed to draft report stage by end of Q2 (against a Q2 target of 45%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	May 2019 – self-assessment by Orbis Internal Audit against PSIAS standards gives an opinion of ‘Generally Conforms’ – the highest of three possible rankings
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	96%
Our staff	Professionally Qualified/Accredited	80%	G	96.3% ¹

¹ Includes staff who are part-qualified and those in professional training

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	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.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.



AUDIT & GOVERNANCE COMMITTEE
17 DECEMBER 2019

**2018/19 AUDIT FINDINGS REPORT AND
ANNUAL STATEMENT OF ACCOUNTS FOR
S. E. BUSINESS SERVICES LTD, SURREY CHOICES LTD &
HALSEY GARTON PROPERTY LTD**

Purpose of the report:

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2018/19 financial statements of S.E.Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd.

Recommendations:

That the Audit and Governance Committee consider the contents of the 2018/19 Audit Findings Report for S. E. Business Services Ltd, Surrey Choices Ltd & Halsey Garton Property Ltd. The Annual Accounts for each company are shared as background information.

Introduction:

1. The Council has three wholly owned Local Authority Trading Companies:
 - S.E.Business Services Ltd (Audit Complete)
 - Surrey Choices Ltd (Audit Complete)
 - Halsey Garton Property Ltd. (*Audit Completion Underway*)

2. The oversight of these companies is provided by the Council's Shareholder and Investment Panel (SHIP - an Officer Panel) and the Strategic Investment Board (SIB - a Member led Panel). It has been established in accordance with best practice governance principles to ensure effective over-sight and alignment with the strategic objectives and values of the Council. The Board's responsibilities and powers include:
 - appointing and removing directors;
 - approval of annual business plans; and
 - reviewing the financial and overall performance of trading companies.

3. The SHIP and SIB, both safeguard the Council's interest and takes decisions in matters that require the approval of the Council as owner or a shareholder of a company. Shareholder control is exercised over all companies owned by the Council, and in relation to any shares held whether the purpose is trading, service provision, or investment. Decisions in relation to the day to day operation of companies are taken by the directors of each company.
4. The SIB provides an Annual Report which is considered by Cabinet and by full Council.
5. The audit findings report and financial statements for the council's wholly owned companies is shared with the Audit & Governance Committee for information. The following documents are included-
 - Annex A – S E Business Services Ltd financial statements 2018/19
 - Annex B – Grant Thornton audit findings report for S E Business
 - Annex C – Surrey Choices Ltd financial statements 2018/19
 - Annex D – Grant Thornton audit findings report for Surrey Choices Ltd

Audit Findings:

6. The Directors of the companies approved the 2018/19 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2019.
7. The Audit Findings reports summarise the finding of the 2018/19 audit undertaken by Grant Thornton. The reports set out a summary of the work carried out and the conclusions reached.
8. At the beginning of an audit an Audit Plan was shared with the company directors, which identified areas of significant risk and other risks of material misstatement. The Audit Findings Report summaries the work completed in relation to these areas.

Conclusions:

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

Financial and value for money implications

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

Equalities and Diversity Implications

There are no direct equalities implications of this report.

Risk Management Implications

There are no direct risk management implications of this report.

Contact Officer:

Sonia Sharma, Strategic Finance Business Partner – Commercial (Corporate Finance)

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S.E. Business Services Limited

**Company Registration Number:
08578463
(England and Wales)**

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

**Period of accounts
Start date: 01 April 2018
End date: 31 March 2019**

**S.E. Business Services Limited
Contents of the Financial Statements
for the Period Ended 31 March 2019**

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**S.E. Business Services Limited
Company Information
for the Period Ended 31 March 2019**

Directors:

S Ruddy
J Harris

Registered office:

County Hall
Penrhyn Road
Kingston Upon Thames
Surrey
KT1 2DN

Company Registration Number: 08578463 (England and Wales)

Ultimate Parent:

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

Auditor:

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

**S.E. Business Services Limited
Report of the Directors
for the Period Ended 31 March 2019**

The directors present their report with the financial statements of the company for the period ended 31 March 2019.

Principal activities

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

Directors

The directors shown below have held office during the whole of the year from 01 April 2018 to 31 March 2019.

S Ruddy
J Harris

The following directors resigned during the period 01 April 2018 to 31 March 2019.

R Crossley resigned on the 6th March 2019
E Mills resigned on the 22nd March 2019

Political and charitable donations

None.

Company policy on the employment of disabled persons

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

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;

**S.E. Business Services Limited
Report of the Directors
for the Period Ended 31 March 2019**

Directors' responsibilities statement (continued)

- make judgments and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditor

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

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

Auditor

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

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

This report was approved by the board of directors on 02 October 2019

And Signed On Behalf Of The Board By: S Ruddy



Status: Director



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

Opinion

We have audited the financial statements of S E Business Services Limited (the 'company') for the year ended 31st March 2019, which comprise the profit and loss account, the balance sheet, the statement of changes in equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

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

Other information continued.

material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

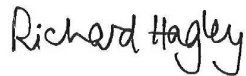
Independent auditor's report to the members of S.E. Business Services Limited continued.

Auditor's responsibilities for the audit of the financial statements continued

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

Use of our report

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



Richard Hagley BSC FCA

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

30 Finsbury Square

London

EC2A 1AG

2 October 2019

S.E. Business Services Limited
Profit and Loss Account
for the period ended 31 March 2019

	Note	2019 £	2018 £
Turnover		2,438,262	2,052,772
Cost of sales	5	<u>(1,599,411)</u>	<u>(1,397,573)</u>
Gross profit		838,851	655,199
Administrative expenses		<u>(155,827)</u>	<u>(148,691)</u>
Operating profit		683,024	506,508
Interest payable and receivable	8	<u>(3,267)</u>	<u>55</u>
Profit on ordinary activities before taxation	7	679,757	506,563
Tax on Profit on ordinary activities	9	<u>(126,970)</u>	<u>(35,492)</u>
Profit for the financial year		<u>552,787</u>	<u>471,071</u>

The notes form part of these financial statements.

S.E. Business Services Limited

Balance Sheet

as at 31 March 2019

		2019		2018	
	Note	£	£	£	£
Current Assets					
Debtors	11	349,795		305,087	
Cash at bank and in hand		<u>971,473</u>		<u>801,589</u>	
			1,321,268		1,106,676
Creditors: amounts falling due within one year	12	(533,876)		(872,072)	
			(533,876)		(872,072)
Net current assets			<u>787,392</u>		<u>234,604</u>
Net assets			<u>787,392</u>		<u>234,604</u>
Capital and Reserves					
Called up equity and share capital	13		1		1
Non-distributable reserve	3.3		220,717		220,717
Profit and loss account			566,674		13,886
			<u>787,392</u>		<u>234,604</u>

The company's financial statements have been prepared in accordance with the provisions applicable to companies subject to small companies' regime.

The financial statements were approved by the Board of Directors on 02 October 2019

Signed on behalf of the board of directors by S Ruddy



Director

Company Registration no: 08578463

The notes form part of these financial statements.

S.E. Business Services Limited
Statement of Changes in Equity
for the year ended 31 March 2019

	Share Capital	Non distributable reserve	Profit and loss Account	Total
	£	£	£	£
At 31 March 2016	1	145,533	424,676	570,210
Profit and total comprehensive income for the year	-	-	433,323	433,323
Issue of shares			-	-
Dividends paid in respect of the year 15/16	-	-	(400,000)	(400,000)
Group Tax Relief		14,429	(14,429)	-
At 31 March 2017	1	159,962	443,570	603,533
Profit and total comprehensive income for the year	-	-	471,071	471,071
Issue of shares			-	-
Dividends paid in respect of the year 16/17	-	-	(440,000)	(440,000)
Dividends agreed for the year 17/18	-	-	(400,000)	(400,000)
Group Tax Relief		60,755	(60,755)	-
At 31 March 2018	1	220,717	13,886	234,604
Profit and total comprehensive income for the year			552,787	552,787
Issue of shares				-
Dividends agreed for the year 18/19			-	-
Group Tax Relief			-	-
At 31 March 2019	1	220,717	566,674	787,392

The notes form part of these financial statements.

S.E. Business Services Limited
Notes to the Financial Statements
for the year ended 31 March 2019

1. Company Information

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

2. Basis of preparation

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

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

The Financial Statements are presented in Sterling (£).

2.1 Going Concern

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

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

3. Accounting Policies

3.1 Turnover

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

3.2 Recognition of income and expenditure

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

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

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

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

3.3 Non Distributable Reserves

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

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

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

4. Current Taxation

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

5. Cost of Sales and Staff Costs

	2019 £	2018 £
Cost of Sales before staff costs	1,284,677	1,152,165
Wages and Salaries	292,220	195,754
Social Security Costs	18,927	30,396
Pension Costs	3,587	19,258
	<u>1,599,411</u>	<u>1,397,573</u>

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

6. Average number of Employees

During 18/19 the average number of employees was 50 (3 full time employees and 47 who receive a monthly retainer). In 17/18 this was 48.

7. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

Auditor's Remuneration and Tax fees:

	2019	2018
	£	£
Grant Thornton Audit Fees	12,000	12,066
RSM Tax Compliance services	1,815	850
	<u>13,815</u>	<u>12,916</u>

8. Interest Payable and Receivable

	2019	2018
	£	£
Other interest income	3,121	(88)
Misc Bank charges	146	33
	<u>3,267</u>	<u>(55)</u>

9. Taxation

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

	2019	2018
	£	£
UK Corporation Tax	126,970	35,492
Deferred Tax		
Tax on profit on ordinary activities	<u>126,970</u>	<u>36,492</u>
Profit on ordinary activities before taxation	<u>679,757</u>	<u>506,563</u>
Rate of tax for period	19%	19%
Profit on ordinary activities before taxation multiplied by the rate of tax for period	129,154	96,247
Expenses not deductible to tax purposes		
Adjust closing deferred tax to average rate of 19%	4	
Adjustments in respect of prior periods	(2,188)	(60,755)
Group Tax Relief Current Year		
Group Tax Relief Prior Year		
Current tax charge	<u>126,970</u>	<u>35,492</u>

10. Loans and Overdraft

There were no intergroup loan agreements in 18/19.

11. Debtors

	2019	2018
	£	£
Trade Debtors	319,051	240,951
Prepayments and accrued income	30,744	64,136
	<u>349,795</u>	<u>305,087</u>

All amounts are payable within one year

12. Creditors

	2019	2018
	£	£
VAT	43,825	7,663
Accruals and Deferred Income	79,694	169,588
Corporation Tax	126,970	35,492
Trade Creditors	283,387	259,329
Dividend Payable to SCC	-	400,000
	<u>533,876</u>	<u>872,072</u>

All amounts are payable within one year

13. Called Up Share Capital

Allotted and called up

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

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

14. Related Party Disclosures

S.E. Business Services Limited is a 100% subsidiary of Surrey County Council, which is the ultimate controlling party. An interim Dividend of £500,000 has been proposed for year ending 31st March 2019. Surrey County Council consolidates S.E. Business Services Limited into their group accounts.

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The Audit Findings for S.E. Business Services Limited

Year ended 31 March 2019

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Richard Hagley

Engagement leader

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The Directors
S.E. Business Services Limited
County Hall
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Kingston Upon Thames
Surrey
KT1 2DN

1 October 2019

Private and Confidential

Grant Thornton UK LLP
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London
EC2A 1AG

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Dear Sirs

Audit Findings for S.E. Business Services Limited for the year ended 31 March 2019

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Richard Hagley

Engagement Leader
For Grant Thornton UK LLP

Chartered Accountants

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Status of the audit

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



Letter of representation to be signed alongside the financial statements
Final post balance sheet events confirmation on the date of signing

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

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Audit opinion

Our anticipated audit report opinion will be unmodified

Significant findings

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

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

Auditor commentary

- Audit work performed:
 - Documented our understanding of management's controls over revenue recognition;
 - Reviewed the appropriateness of management's revenue recognition policies;
 - Reviewed significant contracts to check that contract revenues have been accounted for appropriately; and
 - Substantively tested all material revenue streams.

Conclusion

From the work performed, we are satisfied that revenue is not materially misstated.

2

Management override of controls

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

Auditor commentary

To gain reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, we have performed the following work:

- Review of accounting estimates, judgements and decisions made by management.
- Gained an understanding of the control environment surrounding journal posting
- Reviewed the cashbook for transactions judged to be large or unusual by the audit team and tested these to supporting documentation
- Tested any significant transactions outside the normal course of business operations for the validity of their business rationale.

Conclusion

From the work performed, we are satisfied that sufficient controls are in place to prevent the risk of management over-ride leading to material misstatement or fraudulent activities.

Other findings

Other risks are, in the auditor's judgment, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risks identified in our Audit Plan

Commentary

1

Operating expenses and creditors

- There is the risk that operating expenses are understated or not recorded in the correct period. There is also the risk that creditors at year end are understated.

Auditor commentary

- Audit work performed:
 - Documented the controls in place in relation to operating expenses;
 - Performed cut off testing to assess whether transactions occurring close to the year end have been recorded in the correct accounting period;
 - Tested expenditure and year end creditor balances.

Conclusion

From the work performed, we identified a material misstatement relating to the dividend payable within creditors. Upon inspection we found that no written resolution had been signed at year-end, hence there was no obligation for the dividend to be paid. Therefore we have requested that management adjust this out of creditors and equity (see adjusted misstatements). No other issues found and we are satisfied that operating expenses and creditors will be recorded correctly after the adjustment is posted.

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2

Employee Remuneration

- There is the risk that payroll costs, tax obligations and pension expenses are understated or inaccurate.

Auditor commentary

- Audit work performed:
 - Documented the controls in place in relation to payroll expenditure;
 - Tested a sample of starters and leavers to supporting documentation held
 - Tested a sample of payroll transactions to supporting records; and
 - Reconciled payroll records to the financial statements.

Conclusion

From the work performed, we are satisfied that payroll expenditure has been recorded correctly in the financial statements.

Going Concern

Description

The assessment of the entity's ability to continue as a going concern is an essential part of the accounts approval process.

The adequacy of disclosure of the risks associated with going concern remains an area of focus for the regulators when reviewing financial statements, even in entities where there is no obvious going concern risk.

For this reason both the board and ourselves need to consider a period of at least 12 months from the date of approval of the financial statements.

Work commentary

Work performed:

- Reviewed the disclosures concerning the basis of preparation of the financial statements.
- Reviewed the business plans and will review the cash flow forecasts prepared by management, including the assumptions used and level of headroom available.
- Considered robustness of the forecasts to potential changes in underlying assumptions and management contingency plans in the event of such circumstances arising. In particular, considered the impact of the upcoming expiry of the CSH contract and the impact on the funding of the business, and have assessed that the company would be able to reduce costs and still manage within its resources as a going concern.



Other communication requirements

Issue	Commentary
1 Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Board in our Audit Plan. We have not been made aware of any incidents of fraud in the year and no other issues have been identified during the course of our audit procedures.
2 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3 Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with laws and regulations.
4 Written representations	<ul style="list-style-type: none"> Representations will be requested from management in respect of the significant assumptions used in making accounting estimates.
5 Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request HSBC in respect of the Company's closing bank balance as at 31 March 2019. This permission was granted and the requested letter was received.
6 Disclosures	<ul style="list-style-type: none"> We identified no significant disclosure errors or omissions in the financial statements.
7 Internal controls	<ul style="list-style-type: none"> During our audit we did not note any significant deficiencies in internal controls to report. This is in line with the previous years audit.

Adjusted misstatements

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

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
	Profit/(Loss) per draft accounts					552,818
1	Dr Creditors			500,000		
	Cr Retained Earnings				500,000	
	<i>Being the adjustment to the dividend not yet confirmed by written resolution</i>					
	Profit/(Loss) per final accounts					552,818

There were no unadjusted misstatements to note.

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Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

Distribution of this Audit Findings report

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





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Annual Report Surrey Choices Ltd

For the year ended 31 March 2019

Company Information

Directors	B A Muir M. Le Jakobsen
Registered number	08931490
Registered office	Fernleigh Day Centre Fernleigh Close Walton- on- Thames Surrey England KT12 1RD
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2A 1AG

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Directors' Report

For the year ended 31 March 2019

The directors present their report, the strategic report, and the financial statements for the year ended 31 March 2019.

Principal activities

The Company is principally engaged in the provision of adult social care services across Surrey, along with residential care for learning difficulties, mental health, substance abuse, and disability.

Results and dividends

The profit for the year, after taxation, amounted to £733,614 (2018 -£396,544).

No dividend was declared for the year.

Directors

The directors who served during the year were:

K M Kilburn (resigned 10 August 2018)

P J Fell (resigned 31 July 2018)

B A Muir

J J Ratcliff (appointed 1 August 2018, resigned 30 November 2018)

S T Pollock (appointed 18 September 2018, resigned 6 June 2019)

M. Le Jakobsen (appointed 19 November 2018)

Employment of disabled persons

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

Employee involvement

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

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

Directors' responsibilities statement

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

Company Law requires the directors to prepare financial statements for each financial year. Under that Law, the directors have elected to prepare the financial statements in accordance with applicable law

Directors' Report

For the year ended 31 March 2019

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to the Company's auditor

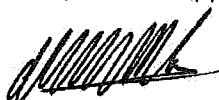
The directors confirm that:

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

Auditors

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

This report was approved by the board on 24 September 2019 and signed on its behalf.



Mette Le Jakobsen
Director

Strategic Report

For the year ended 31 March 2019

The directors present their strategic report for the year ended 31 March 2019.

Business review

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

Fair review of business

The results for the business for the year, which are set out in the statement of comprehensive income, show turnover for the period of £14,053,188 (2018 : £14,396,875) and a total comprehensive income for the financial period of £ 354,614 (2018 : £535,544). At 31 March 2019, the company had net liabilities excluding pension liabilities of £2,619,415 (2018 : £3,643,029) and net liabilities including pension liabilities of £4,213,415 (2018 : 4,568,029). The directors of the company consider that the financial position at the period end is satisfactory, being in line with the business plan.

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

Future developments

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

Principal risks and uncertainties

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

Financial instruments

Objectives and policies

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

Strategic Report (Continued)**Price risk, credit risk, liquidity risk and cash flow risk**

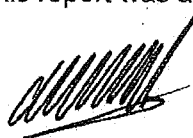
The business' principal financial instruments comprise bank balances, trade debtors and trade creditors. The main purpose of these instruments is to finance the business' operations.

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

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

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

This report was approved by the board on 24 September 2019 and signed on its behalf.



Mette Le Jakobsen
Director



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

Opinion

We have audited the financial statements of Surrey Choices Ltd (the 'company') for the year ended 31st March 2019, which comprise of the statement of comprehensive income, the statement of Financial Position, the statement of cashflows, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 1 and 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using



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

the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

A handwritten signature in black ink that reads "Joanne Love".

Joanne Love LLB FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

27 September 2019 .

Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	2019 £	2018 £
Turnover	3	14,053,188	14,396,875
Cost of Sales		<u>(11,127,957)</u>	<u>(11,936,763)</u>
Gross Profit		2,925,231	2,460,112
Administrative Costs		<u>(2,043,685)</u>	<u>(1,923,893)</u>
Operating Profit	4	881,546	536,219
Interest Payable and Financial expenses	8	<u>(147,295)</u>	<u>(139,675)</u>
Profit before tax		734,251	396,544
Tax on Profit	9	<u>(637)</u>	-
Profit for the year		<u>733,614</u>	<u>396,544</u>
Other Comprehensive Income for the Year			
Profit for the financial period		733,614	396,544
Actuarial (Losses) / Gains on defined benefit pension scheme	19	<u>(379,000)</u>	<u>139,000</u>
Other Comprehensive Income for the Year		<u>(379,000)</u>	<u>139,000</u>
Total Comprehensive Income for the Year		<u>354,614</u>	<u>535,544</u>

The accompanying notes form part of these financial statements

Statement of Financial Position

As at 31st March 2019

	Note	2019 £	2018 £
Fixed assets			
Tangible Assets	10	<u>131,871</u>	<u>151,100</u>
Current Assets			
Debtors	11	302,064	376,523
Cash at Bank and in Hand	12	<u>1,885,843</u>	<u>754,891</u>
		2,187,907	1,131,414
Creditors: Amounts Falling due within one year	13	<u>(2,139,193)</u>	<u>(2,125,543)</u>
Net Current Assets/(Liabilities)		<u>48,714</u>	<u>(994,129)</u>
Total Assets less current Liabilities		180,585	(843,029)
Creditors: Amount falling due after more than one year	14	(2,800,000)	(2,800,000)
Pension Liability	19	(1,594,000)	(925,000)
Deferred Tax Liability		-	-
Net Liabilities		<u>(4,213,415)</u>	<u>(4,568,029)</u>
Capital and Reserves			
Called-up Share Capital	18	100	100
Profit and Loss Account	17	<u>(4,213,515)</u>	<u>(4,568,129)</u>
		<u>(4,213,415)</u>	<u>(4,568,029)</u>

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



Mette Le Jakobsen

Director 24 September 2019

The accompanying notes form part of these financial statements

Statement of cash flows

For the year ended 31 March 2019

	2019	2018
	£	£
Cash flow from operating activities		
Profit /(Loss) for the financial year	733,614	396,544
Adjustments for:		
Depreciation of tangible assets	102,038	306,649
Interest paid	94,646	88,675
Pension service and finance cost recognised	436,000	566,000
Employee's pension contributions	(146,000)	(184,000)
Decrease /(increase) in trade and other debtors	74,459	(1,228)
Increase /(Decrease) in trade creditors	13,650	(358,212)
Cash flow from operations	1,308,406	814,429
Income taxes paid	-	-
Net cash generated by operating activities	1,308,406	814,429
Cash flows from investing activities		
Improvement of Lease property	(4,951)	(16,955)
Purchase of other fixed assets	(77,858)	(21,711)
Net cash from investment activities	(82,809)	(38,666)
Cash flows from financing activities		
Interest accrual	(94,646)	(88,675)
Net cash used by financing activities	(94,646)	(88,675)
Net increase in cash and cash equivalents	1,130,952	687,088
Cash and cash equivalents at the beginning of the year	754,891	67,803
Cash and cash equivalents at the end of the year	1,885,843	754,891

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 March 2019

	Share Capital	Profit and Loss Account	Total Equity
	£	£	£
At 31 March 2017	100	(5,103,673)	(5,103,573)
Profit for the year		396,544	396,544
Other Comprehensive income for the period			
Actuarial Gain/ Loss net of tax		139,000	139,000
Issue of shares	-	-	-
Dividend paid	-	-	-
At 31 March 2018	100	(4,568,129)	(4,568,029)
Profit for the year		733,614	733,614
Other Comprehensive income for the period			
Actuarial Gain/ Loss net of tax		(379,000)	(379,000)
Issue of shares	-	-	-
Dividend	-	-	-
At 31 March 2019	100	(4,213,515)	(4,213,415)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2019

1. Accounting policies

1.1 Basis of preparation of financial statements

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

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

The following principal accounting policies have been applied:

1.2 Going concern

The company relies on a contract with Surrey County Council to provide certain services to the Council. This has recently been renewed to run to 31 March 2025. Whilst there is no minimum commitment to contract volumes from the Council, the directors maintain close contact with the Council and have no reason to believe that reasonable purchasing volumes would not continue in the foreseeable future. The Company have further received an ongoing letter of support from the Council. The Company funds its working capital requirements through an agreed ten-year credit facility with its parent entity. The Directors have reviewed the Company's forecasts for the following 12 months from the date of formally approving the annual report and financial statements. On this basis the directors consider that it is appropriate to prepare the accounts on a going concern basis.

1.3 Turnover

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

1.4 Tangible fixed assets

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

The estimated useful lives range as follows:

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

Notes to the Financial Statements

For the year ended 31 March 2019

1.5 Operating leases

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

1.6 Debtors

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

1.7 Cash and cash equivalents

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

1.8 Financial instruments

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2019

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

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

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

1.9 Creditors

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

1.10 Finance costs

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

1.11 Pensions

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the Company in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

SCC Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term

Notes to the Financial Statements

For the year ended 31 March 2019

and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial gains and losses.

Defined contribution pension plan

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

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

1.12 Provisions for Liabilities

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

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

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

1.13 Taxation

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

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

Notes to the Financial Statements

For the year ended 31 March 2019

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

A deferred tax liability or asset is recognised for the additional tax that will be incurred or deductible in the future based on assets and liabilities that are recognised in a business combination.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

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

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

2.1. Improvement of Lease Property

Improvement Expenditure is capitalised in accordance with the accounting policy of fixed asset given above. Management review the cost incurred on the property to ensure it meet the criteria of capital cost and has foreseeable economic use. The entity recognises the costs of day to day servicing of an item of property, plant and equipment in the income and expenditure in the period in which the costs are incurred.

2.2. Pension and other post-employment benefits

The cost of defined benefit pension plan and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increase. This valuation is subject to significant uncertainty due to the complexity of the calculation and the long-term nature of the plan.

2.3 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date on the expected utility of the assets to the Company. The carrying amounts are analysed in note 10. Actual results however, may vary due to technical obsolescence, particularly for computer equipment.

2.4. Deferred tax asset

Management reviews assets at each reporting date to ensure deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. The current prudent judgement made by management is that the deferred tax asset is not recoverable (i.e. although there is a total potential deferred tax asset of £762,739, management do not consider there is evidence that sufficient taxable profits will be available in the future to utilise this asset against).

Notes to the Financial Statements

For the year ended 31 March 2019

3. Turnover

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

4. Operating profit

The operating profit is stated after charging:

	2019	2018
	£	£
Operating leases - property	834,744	876,308
Operating leases - motor vehicles	109,916	109,916
Depreciation of owned assets	102,038	306,649
Auditor's remuneration	20,500	20,500
Defined contribution pension cost	146,000	184,000
Other scheme contribution pension cost	<u>679,679</u>	<u>780,291</u>

5. Auditor's remuneration

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

	2019	2018
	£	£
Audit of financial statements	17,000	17,000
Taxation compliance service *	-	-
Other audit related service: certification of Teachers' Pensions	<u>3,500</u>	<u>3,500</u>
	<u>20,500</u>	<u>20,500</u>

* Taxation compliance service in 2019 was provided by an independent company, RSM UK Tax and Accounting, for a fee of £1,790.

Notes to the Financial Statements

For the year ended 31 March 2019

6. Particulars of employees

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

	2019	2018
	£	£
Wages and salaries	6,563,947	6,728,777
Social security	536,609	561,920
Pension cost	825,679	964,291
	<u>7,926,235</u>	<u>8,254,988</u>

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

	2019	2018
	£	£
Support workers and operational staff	269	261
Managers	17	17
	<u>286</u>	<u>278</u>

7. Directors' remuneration

	2019	2018
	£	£
Wages and salaries	117,875	128,874
Social security Cost	15,007	16,565
Other Pension costs	4,593	2,978
	<u>137,475</u>	<u>148,417</u>

8. Interest payable and financial expenses

	2019	2018
	£	£
Interest on SCC Loan	91,295	88,675
Other finance costs (note 20)	56,000	51,000
	<u>147,295</u>	<u>139,675</u>

Notes to the Financial Statements

For the year ended 31 March 2019

9. Taxation

	2019	2018
	£	£
Current tax		
United Kingdom Corporation tax	(637)	-
Deferred tax		
Origination and reversal of timing differences	-	(69,012)
Prior year deferred tax adjustment	-	69,012
Total deferred tax (expenditure)/income on ordinary activities	-	-
Total current and deferred tax relating to items of Other Comprehensive income		
Prior year deferred tax adjustment		
Total Tax	(637)	-

Factors affecting tax charge for the year/period

	2019	2018
	£	£
Profit on ordinary activities before tax	734,251	396,544
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	139,508	75,343
Effects of:		
Fixed asset differences	4,847	2,829
Expenses not deductible for tax purposes		36
Adjustments to brought forward values		15
Amounts (charged)/ credited directly to Statement of Recognised		
Gains /Losses or otherwise transferred	(72,010)	26,410
Adjustments to tax charge in respect of previous period		
Adjustments to tax charge in respect of previous period—deferred tax		
Adjust closing deferred tax to average rate of 19%	82,186	(3,885)
Deferred tax (charged)/ credited directly to equity	-	-
Adjust opening deferred tax to average of 19%	(89,734)	-
Other deferred tax not recognised	(64,160)	(100,748)
Unexplained difference	-	-
Tax charge/ (credit) for the period	637	0

Notes to the Financial Statements

For the year ended 31 March 2019

10. Fixed Assets

	Leasehold property Improvements £	Furniture, Fixtures & Equipment £	Former Council Fixtures & Fittings £	Computer Equipment £	Motor Vehicles £	Total £
Cost						
At 1 April 2018	462,028	138,241	411,504	380,210	-	1,391,984
Additions	4,951	10,542	-	31,917	35,400	82,809
Disposal	-	-	-	-	-	-
At 31 March 2019	466,979	148,783	411,504	412,126	35,400	1,474,792
Depreciation						
At 1 April 2018	359,584	104,708	411,504	365,087	-	1,240,883
Provided in the year	60,947	27,329	-	8,141	5,622	102,038
Disposal	-	-	-	-	-	-
At 31 March 2019	420,531	132,037	411,504	373,228	5,622	1,342,922
Net Book amount at						
At 31 March 2019	46,448	16,747	-	38,899	29,778	131,871
Net Book amount at						
At 31 March 2018	102,444	33,533	-	15,123	-	151,100

Notes to the Financial Statements

For the year ended 31 March 2019

11. Debtors

	2019	2018
	£	£
Trade debtors	349,398	422,526
Prepayments and accrued income	29,431	58,294
Provision for bad debt	<u>(76,765)</u>	<u>(104,297)</u>
	<u>302,064</u>	<u>376,523</u>

12. Cash and cash equivalents

	2019	2018
	£	£
Cash at bank and in hand	<u>1,885,843</u>	<u>754,891</u>

13. Creditors: Amount falling due within one year

	2019	2018
	£	£
Trade creditors	270,762	371,921
Other taxes and social security	489,756	542,822
Other creditors *	1,031,670	1,048,440
Accruals	<u>347,005</u>	<u>162,360</u>
	<u>2,139,193</u>	<u>2,125,543</u>

* Includes prepaid service income of £1,021,119 (2018 - £1,052,016)

Notes to the Financial Statements

For the year ended 31 March 2019

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

	2019	2018
	£	£
Amount owed to parent undertaking	<u>2,800,000</u>	<u>2,800,000</u>

Loans included within creditors, are analysed as follows:

	2019	2018
	£	£
2.5% above base revolving loan	2,100,000	2,100,000
4.24% set-up loan facility	<u>700,000</u>	<u>700,000</u>
	<u>2,800,000</u>	<u>2,800,000</u>

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

The company's parent has provided a revolving loan facility of £2,100,000 of which currently £2,100,000 has been drawn down; this was originally due to mature in June 2019, and also a set-up loan of £700,000 due for repayment in August 2019.

The company received confirmation from SCC prior to the year-end that these terms would be extended. They will be paid in annual instalments of £350k from 2021/22 to be fully repaid by 2028/29.

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

The interest term for the set-up loan is six monthly in arrears

15. Leasing Commitments

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

	2019	2018
	£	£
Within one year	548,453	981,670
Between one and five years	<u>191,121</u>	<u>744,409</u>

Notes to the Financial Statements

For the year ended 31 March 2019

16. Financial instruments

Financial instruments are measured at amortised cost

Financial assets	2019	2018
	£	£
Debtors	272,633	318,229
Cash	<u>1,885,843</u>	<u>754,891</u>
	<u>2,158,476</u>	<u>1,073,120</u>
 Financial liabilities		
Trade creditors	270,762	510,408
Other creditors	357,556	297,270
Loans	<u>2,800,000</u>	<u>2,800,000</u>
	<u>3,428,317</u>	<u>3,607,678</u>

17. Profit and Loss Account

	2019	2018
	£	£
Opening balance	(4,568,129)	(5,103,673)
Profit/(Loss) for the financial period	733,614	396,544
Actuarial (loss)/gain on defined benefit pension scheme asset	(379,000)	139,000
Deferred tax asset/(liability) on defined benefit scheme asset	-	-
Closing balance as at 31 March	<u>(4,213,515)</u>	<u>(4,568,129)</u>

18. Share Capital

	2019	2018
	£	£
Allotted, called up and fully paid 100 - Ordinary shares of £1 each	<u>100</u>	<u>100</u>

Notes to the Financial Statements

For the year ended 31 March 2019

19. Pension obligations

The trustees of the TPS and LGPS schemes hold the assets of the scheme, separately from those of the company. The company is responsible for the pensionable costs incurred in respect of the company's

employees. The pension schemes were fully funded by Surrey County Council prior to transfer. The TPS is a defined benefit scheme accounted for as defined contribution scheme. As a multi-employer scheme and due to the way, the scheme is operated, it is not practicable to obtain a reliable estimate of Surrey Choices' share of the liabilities.

The changes in obligation as at 31 March 2019 is £1,233,000 (2018 - £544,000) with a net liability

of £1,594,000 (2018 - £925,000). Surrey County Council have provided an indemnity in relation to pension liabilities.

The service cost charged to the profit and loss account for the period 31 March 2019 is £380,000 (2018 - £515,000) and the net finance cost £56,000 (2018 - £51,000). The actuarial loss for the period charged to the statement of recognised gains and losses is loss- £379,000 (2018 – gain £139,000).

	2019 £	2018 £
Scheme assets	6,354,000	5,790,000
Scheme obligations	<u>(8,985,000)</u>	<u>(7,752,000)</u>
	<u>(2,631,000)</u>	<u>(1,962,000)</u>
Net liability at transfer - obligation of Surrey County Council	(1,037,000)	(1,037,000)
Net liability arising since transfer	<u>(1,594,000)</u>	<u>(925,000)</u>
	<u>(2,631,000)</u>	<u>(1,962,000)</u>

Reconciliation of opening and closing balances of the defined benefit obligation

	2019 £	2018 £
Defined Benefit obligation at the start of the period	7,752,000	7,208,000
Current Service cost	380,000	515,000
Interest Expense	214,000	202,000
Contributions by plan participants	69,000	85,000
Actuarial losses /(gains)	644,000	(194,000)
Benefit paid	(74,000)	(64,000)
Losses /(gains) on curtailments	-	-
Defined benefit obligation at the end of the period	<u>8,985,000</u>	<u>7,752,000</u>

Notes to the Financial Statements

For the year ended 31 March 2019

Pension (continued)

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

	2019	2018
	£	£
Fair value of plan assets at the start of the period	5,790,000	5,489,000
Income Interest	158,000	151,000
Actuarial gains /(losses)	265,000	(55,000)
Benefit paid	(74,000)	(64,000)
Contribution by the Employer	146,000	184,000
Contribution by plan participants	69,000	85,000
Fair value of plan assets at the end of the period	<u>6,354,000</u>	<u>5,790,000</u>

Defined benefit costs recognised in profit or loss

	2019	2018
	£	£
Current service cost	380,000	515,000
Net interest cost	56,000	51,000
Loss on curtailments	-	-
Defined benefit costs recognised in profit and loss account	<u>436,000</u>	<u>566,000</u>

Defined benefit costs recognised in other comprehensive income

	2019	2018
	£	£
Return on plan assets (excluding amounts included in net interest cost) - gain/ (loss)	265,000	(55,000)
Effects of changes in the demographic and financial assumptions underlying the present value liabilities gain/ (loss)	<u>(644,000)</u>	194,000
Total amount recognised in other comprehensive income - (loss) gain	<u>(379,000)</u>	<u>139,000</u>

Notes to the Financial Statements

For the year ended 31 March 2019

Pension (continued)

	2019	2018
Assets		
	%	%
Equities	69	78
Bonds	21	10
Property	7	8
Cash	3	4
Total assets	<u>100</u>	<u>100</u>

Financial assumptions

	2019	2018
Discount rate	2.5%	2.7%
Salary growth rate	2.7%	2.6%
Pension growth rate	2.4%	2.3%
Average life expectancies male*	89.1 Yrs	87.5 Yrs
Average life expectancies female*	91.4 Yrs	89.6 Yrs

The amount of actuarial gains and losses recognised in the Statement of comprehensive income was
£ 379,000 loss (2018 - £ 139,000 gain)

The Company expects to contribute £226,000 to its Defined benefit pension scheme in 2020.

Notes to the Financial Statements

For the year ended 31 March 2019

20. Related party transactions

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

The company has determined that key management includes all executive directors:

	2019	2018
	£	£
Remuneration paid to key management	312,218	203,143

21. Ultimate controlling party

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

22. Company information

Surrey Choices Ltd is a private company, limited by shares incorporated in England and Wales with registered office at Fernleigh Day Centre, Fernleigh Close, Walton-on-Thames, Surrey, England, KT12 1RD

The Audit Findings for Surrey Choices Ltd

Year ended 31 March 2019

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20 June 2019

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Dear Sirs

Audit Findings for Surrey Choices Ltd for the year ended 31 March 2019

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Joanne Love

Engagement Leader
For Grant Thornton UK LLP

Chartered Accountants

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Status of the audit

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



Final review and agreement of financial statements.
Letter of representation to be signed alongside the financial statements

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Audit opinion

Our anticipated audit report opinion will be unmodified

Significant findings

Significant risks are defined by ISAs (UK) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

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

Auditor commentary

- Audit work performed:
 - Documented our understanding of management's controls over revenue recognition;
 - Reviewed the appropriateness of management's revenue recognition policies;
 - Reviewed significant contracts to check that contract revenues have been accounted for appropriately; and
 - Substantively tested all material revenue streams.

Conclusion

From the work performed, we are satisfied that revenue is not materially misstated.

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2

Management override of controls

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

Auditor commentary

To gain reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, we have performed the following work:

- Review of accounting estimates, judgements and decisions made by management.
- Gained an understanding of the control environment surrounding journal posting
- Reviewed the journals posted to the GL including entries which appear outside the normal course of business which will be agreed to supporting documentation.
- Tested any significant transactions outside the normal course of business operations for the validity of their business rationale.

Conclusion

From the work performed, we are satisfied that there are no material misstatements as a result of management override of controls. We have however identified a several control deficiencies - please see further detail within the internal controls section. Other than this, no issues noted.



Other findings

Other risks are, in the auditor's judgment, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risks identified in our Audit Plan

Commentary

1

Operating expenses and creditors

- There is the risk that operating expenses are understated or not recorded in the correct period. There is also the risk that creditors at year end are understated.

Auditor commentary

- Audit work performed:
 - Documented the controls in place in relation to operating expenses;
 - Performed cut off testing to assess whether transactions occurring close to the year end have been recorded in the correct accounting period;
 - Tested expenditure and year end creditor balances.

Conclusion

From the work performed, we identified a misstatement within creditors and expenses above trivial. This adjustment has been proposed but because it is below materiality it has been left as unadjusted. No other issues found and we are satisfied that operating expenses and creditors are recorded correctly.

2

Employee Remuneration

- There is the risk that payroll costs, tax obligations and pension expenses are understated or inaccurate.

Auditor commentary

- Audit work performed:
 - Documented the controls in place in relation to payroll expenditure;
 - Tested a sample of starters and leavers to supporting documentation held
 - Tested a sample of payroll transactions to supporting records; and
 - Reconciled payroll records to the financial statements.

Conclusion

From the work performed, we are satisfied that payroll expenditure has been recorded correctly in the financial statements.

Other findings (continued)

Risks identified in our Audit Plan

Commentary

3

Defined benefit pension scheme

- A defined benefit pension scheme is operated by the company. There is a risk that the assets held in the pension fund do not exist and actuarial assumptions are not accurate.

Auditor commentary

- Audit work performed:
 - Obtained the actuarial report prepared by RSM and reconciled to the financial statements;
 - Assessed the reasonableness of the assumptions and models used by the actuary to determine the fair value of the pension scheme;
 - Reviewed the initial impact of GMP equalisation and McCloud judgement, provided by the actuary, and assess for reasonableness.

Conclusion

From the work performed, we are satisfied that the deferred pension calculations have been recorded correctly in the financial statements.



Going Concern

Description

The assessment of the entity's ability to continue as a going concern is an essential part of the accounts approval process.

The adequacy of disclosure of the risks associated with going concern remains an area of focus for the regulators when reviewing financial statements, even in entities where there is no obvious going concern risk.

For this reason both the board and ourselves need to consider a period of at least 12 months from the date of approval of the financial statements.

Work commentary

Work performed:

- Reviewed the disclosures concerning the basis of preparation of the financial statements.
- Reviewed the business plans and will review the cash flow forecasts prepared by management, including the assumptions used and level of headroom available.
- Consider robustness of the forecasts to potential changes in underlying assumptions and management contingency plans in the event of such circumstances arising.
- Obtained a letter of support from Surrey County Council confirming that they will not demand repayment of the loan for at least 12 months from the date of approval of the Surrey Choices statutory financial statements

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

Other communication requirements

Issue	Commentary
1 Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Board in our Audit Plan. We have not been made aware of any incidents of fraud in the year and no other issues have been identified during the course of our audit procedures.
2 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3 Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with laws and regulations.
4 Written representations	<ul style="list-style-type: none"> Representations will be requested from management in respect of the significant assumptions used in making accounting estimates.
5 Disclosures	<ul style="list-style-type: none"> We identified no significant disclosure errors or omissions in the financial statements.



Internal controls

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265.
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.

Assessment

Issue and risk

Recommendations

1



Whilst carrying out our review of journal postings in the year, we noted the following:

- Individual journal entries are not authorised. We are aware of compensating controls in place through the monthly review process. However, there is the risk that errors or fraud could occur without being detected.
- Senior members posting journals. In our testing we identified a number of journals which had been posted by Andrew Gray. He is a senior member of the finance team and hence we would not expect him to be posting journals. However as they have had multiple changes in staff during the year, this was necessary due to the lack of experience in other staff members. There is still a risk that error or fraud could occur due to the lack of segregation.

- We recommend that all individual journal entries are approved by another member of the finance team with the appropriate level of authority.
- We also recommend that Andrew does not post journals and has a review capacity only.

Management response

Management has considered this and will train more staff to post journals so there will be a formal process of review and authorisation.

No control points were raised in the prior year in which to report on.

Unadjusted misstatements

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
	Profit/(Loss) per draft accounts					100,000
1	Dr Creditors			15,213		
	Cr Expenses		15,213			15,213
	<i>Being the adjustment to balances within creditors which relate to FY20</i>					
	Profit/(Loss) per final accounts					115,213

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There were no adjusted misstatements to note.



Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

Distribution of this Audit Findings report

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





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Audit & Governance Committee
17 December 2019

External Audit Update Report

Purpose of the report:

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

Recommendations:

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

Introduction:

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

Conclusions

Financial and value for money implications

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

Equalities and Diversity Implications

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

Risk Management Implications

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

Report contact: Zakaria Hussain, Strategic Finance Manager (Corporate Finance)

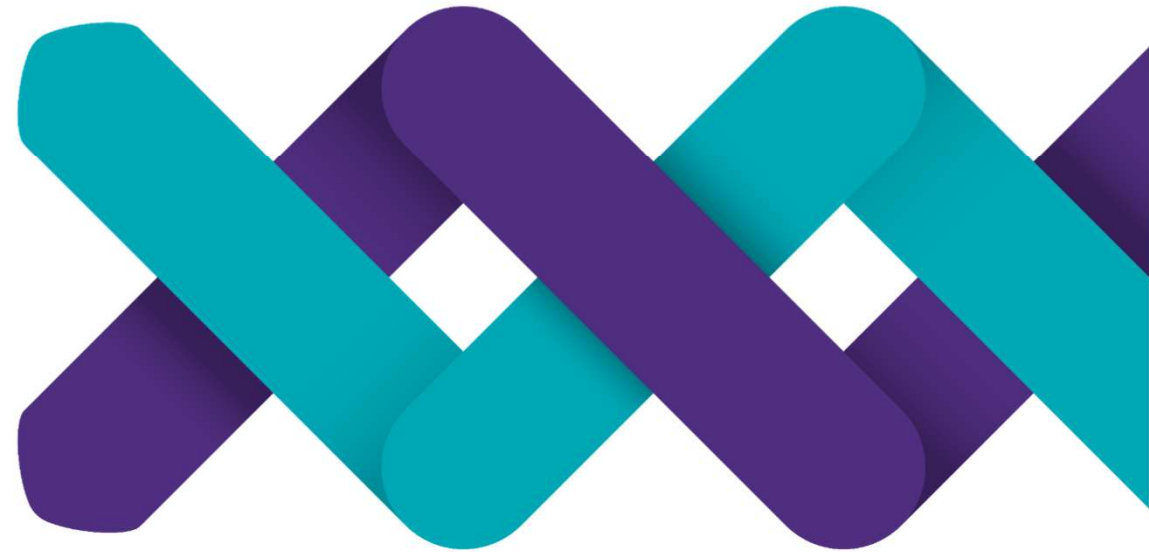
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Audit Progress Report and Sector Update

Surrey County Council
Year ending 31 March 2020

17 December 2019



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes).

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

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

Progress at December 2019

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Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 31 July 2019. We completed our work on your Whole of Government Accounts (WGA) submission in September 2019, in accordance with the national timetable for completion of that work.

We issued our certificate, formally closing the 2018/19 audit on 8 December 2019 following review of the Pension Fund annual report for consistency with the Statement of Accounts.

We have started our audit planning & risk assessment for the 2019/20 audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements in January 2020.

We will begin our interim audit in January 2020. Our interim fieldwork includes:

- An updated review of the Council and Pension Fund's control environment
- Gaining an updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will commence our final audit in June 2020.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 July 2020.

Value for Money

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

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

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

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

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 July 2020.

The NAO is consulting on a new Code of Audit Practice from 2020 which proposes to make significant changes to Value for Money work. Please see page 9 for more details.

Progress at December 2019 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2018/19 claim was completed on 29 November 2019, in order to comply with the 30 November deadline

Meetings

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

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers will be invited to our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your Executive Director of Resources including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit & Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<p>Audit Findings Report</p> <p>The Audit Findings Report was reported to the July Audit & Governance Committee.</p>	July 2019	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2019	Complete
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2019	Complete
<p>Annual Audit Certificate</p> <p>This formally closes the audit for 2018/19.</p>	December 2019	Complete
2019/20 Deliverables	Planned Date	Status
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit & Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.</p>	January 2020	Not yet due
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	April 2020	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit & Governance Committee.</p>	July 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

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Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

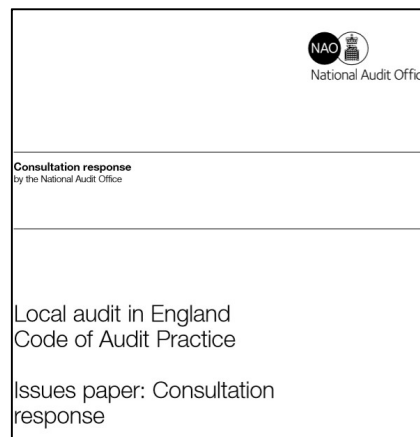
Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation closed on 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit & Governance Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Clear identification of practical expedients used on transition and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.

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Financial Reporting



Challenge question:

Will you have the opportunity to review and comment on your authority’s statement of accounts before they are published at the end of May?

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.



Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.granthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>

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The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>





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Audit & Governance Committee
17 December 2019

Local Firefighters' Pensions Board

Purpose of the report:

The Committee is being asked to approve a change to the Terms of Reference of the Surrey Local Firefighters' Pensions Board to allow members to delegate attendance to substitutes.

Recommendations:

It is recommended that the Committee approve the proposed changes to the Terms of Reference to allow Local Firefighters' Pensions Board members to delegate attendance. This will ensure the Board can meet and will aid the development of potential future Board members.

Introduction:

1. The Terms of Reference specify that Pensions Board members should not be able to delegate attendance at Board meetings. This Report proposes changes to those Terms of Reference to allow delegation to take place.

Terms of Reference:

2. The Local Firefighters' Pensions Board is governed by Terms of Reference which were adopted in March 2015. The current version, version 2, was adopted in September 2015. This version is attached as [Annexe 1](#).
3. The Terms of Reference specify in section 4.5 that Pensions Board members should not be able to delegate attendance at Board meetings.
 - 4.5 Each Local Firefighters' Pension Board member should endeavour to attend all Board meetings during the year. No substitutes will be permitted to attend on behalf of absent Local Firefighters' Pension Board members.

4. It is proposed that this should be amended as follows to allow members to delegate attendance at Board meetings. New text is shown in bold:
 - 4.5 Each Local Firefighters' Pension Board member should endeavour to attend all Board meetings during the year. Substitutes will be permitted to attend on behalf of absent Local Firefighters' Pension Board members **but must meet the requirements of section 9.**
5. Section 9 of the Terms of Reference requires Board members to have knowledge and understanding of the Fire Fighters Pension Scheme and of pensions law.
6. Requiring substitutes to have the appropriate knowledge and understanding should reduce the risk of decisions being influenced by people who are not sufficiently well informed.
7. A revised version of the Terms of Reference showing the proposed changes is included as [Annexe 2](#).

Reasons for change:

8. Allowing members to delegate attendance to substitutes will reduce the risk of Board meetings being cancelled for non-attendance.
9. Attendance at Board meetings as substitutes will aid the development of potential future Board members.

Conclusions:

10. Changing the Terms of Reference to allow delegation to substitutes will increase the resilience of the Board without any detrimental effect to its performance.

Financial and value for money implications

11. 'None'.

Equalities and Diversity Implications

12. There are no direct equalities implications arising from this report.

Risk Management Implications

13. Allowing members to delegate attendance to others could result in decisions being influenced by people who have little knowledge of pensions matters.
14. The clause allowing delegation requires substitutes to meet the knowledge and skills requirements of section 9 of the Terms of

Reference. This should reduce the risk of decisions being influenced by people who are not sufficiently well informed.

Next steps:

If approved by the Committee, the revised Terms of Reference (version 3) will need to be adopted by the Local Firefighters' Pension Board.

Report contact: Sally Wilson, Head of Professional Services, Surrey Fire and Rescue Service

Contact details: 07980 964239 sally.wilson@surreycc.gov.uk

Sources/background papers: None

ANNEXE 1

THE SURREY LOCAL FIREFIGHTERS' PENSION BOARD TERMS OF REFERENCE



Surrey Local Firefighters' Pension Board

Membership: Total five

Two employee representatives
Two employer representatives
The Local Firefighters' Pension Board may also contain one other independent member

Terms of Reference

1. Introduction

- 1.1 This document sets out the terms of reference of the Local Firefighters' Pension Board of Surrey County Council (the 'Fire and Rescue Authority'), a scheme manager as defined under Section 4 of the Public Service Act 2013.
- 1.2 The Local Firefighters' Pension Board is established in accordance with Section 5 of that Act and under draft Regulation 4A of the Firefighters' Pension Scheme (FFPS) (England) Regulations 2014 (as amended).

2. Role of the Local Firefighters' Pension Board

- 2.1 The role of the Local Firefighters' Pension Board, as defined in the Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015, is to assist the Fire and Rescue Authority Scheme Manager:
 - (a) to secure compliance with:
 - (i) the scheme regulations;
 - (ii) any other legislation relating to the governance and administration of the Firefighters' Pension Scheme and any connected scheme;
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Firefighters' Pension Scheme.
 - (b) to ensure the effective and efficient governance and administration of the Firefighters' Pension Scheme.
- 2.2 The Local Firefighters' Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.3 The Local Firefighters' Pension Board will also help ensure that the Firefighters' Pension Scheme is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.4 The Local Firefighters' Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.

2.5 The Local Firefighters' Pension Board should always act within its terms of reference.

3. Establishment of the Local Firefighters' Pension Board

3.1 The Local Firefighters' Pension Board is established on 1 April 2015 subsequent to approval by Surrey County Council on 17 March 2015.

4. Appointment of members of the Local Firefighters' Pension Board and voting rights of Local Firefighters' Pension Board members

4.1 The composition of the members of the Local Firefighters' Pension Board is as follows:

The Local Firefighters' Pension Board shall consist of at least four members and may contain up to five members. It shall be constituted as follows:

- i) Two employer representatives;
- ii) Two scheme member (employee) representatives;
- iii) The Local Firefighters' Pension Board may also contain one independent member.

4.2 Scheme member and employer representatives shall be appointed in equal number and shall together form the majority of the Local Firefighters' Pension Board's membership.

4.3 No officer or elected member of the Fire and Rescue Authority who is responsible for the discharge of any Scheme Manager functions of the Fire and Rescue Authority under the Regulations may serve as a member of the Local Firefighters' Pension Board.

4.4 Each Local Firefighters' Pension Board member so appointed shall serve for the life of the current Surrey County Council, a defined, fixed period which can be extended for further periods subject to re-nomination.

4.5 Each Local Firefighters' Pension Board member should endeavour to attend all Board meetings during the year. No substitutes will be permitted to attend on behalf of absent Local Firefighters' Pension Board members.

4.7 Each Local Firefighters' Pension Board member should participate in training when required.

4.8 Members of the Local Firefighters' Pension Board shall be appointed by the Scheme Manager (the Appointment Panel) in accordance with the **Appointment and Termination Process**.

4.9 The Appointment Panel shall be made up of the following:

- the Chairman of People, Performance and Development Committee;
- the Strategic Finance Manager (Pension Fund and Treasury);
- the Director of Finance (or her nominee);
- the Director of Legal and Democratic Services (or her nominee);
- the Chief Fire Officer (or his nominee).

4.10 Each employer representative and member representative of the Local Firefighters' Pension Board will have an individual vote on any matter needing a decision. The independent member of the Local Firefighters' Pension Board does not have voting rights. It is expected that the Local Firefighters' Pension

Board will, as far as possible, reach a consensus. If a consensus is not reached the Chairman shall have a casting vote in addition to any vote he may have already cast.

5. Appointment and duties of the Chairman and Vice Chairman of the Local Firefighters' Pension Board

- 5.1 A Chairman and Vice Chairman of the Local Pension Board to be appointed by the Scheme Manager (the Appointment Panel) in accordance with the **Appointment and Termination Process**.
- 5.2 It will be the role of the Chairman of the Local Firefighters' Pension Board to ensure that all members of the Local Firefighters' Pension Board show due respect for process, that all views are fully heard and considered, and to determine when consensus has been met.
- 5.3 The full responsibilities of the Chairman of the Local Firefighters' Pension Board are contained in the Chairman of the Local Firefighters' Pension Board description.
- 5.4 The Vice Chairman shall undertake the duties of the Chairman in the event of the Chairman's absence.

6. Notifications of appointments to the Local Firefighters' Pension Board

- 6.1 When appointments to the Local Firefighters' Pension Board have been made, the Scheme Manager shall publish the name of the Local Firefighters' Pension Board members, the process followed in the appointment together with the way in which the appointment supports the effective delivery of the purpose of the Local Firefighters' Pension Board.

7. Termination of membership of the Local Firefighters' Pension Board

- 7.1 Any termination of membership of the Local Firefighters' Pension Board will be in accordance with the **Appointment and Termination Process**.
- 7.2 Membership of the Local Firefighters' Pension Board may be terminated due to:
- i) a member representative appointed on the basis of their membership of the scheme no longer being a scheme member of the Fund;
 - ii) an employer representative no longer holding the office or employment or being a member of the body on which their appointment relied;
 - iii) a Local Firefighters' Pension Board member no longer being able to demonstrate to the Scheme Manager their capacity to attend and prepare for meetings or to participate in required training or otherwise to carry out the requirements of the role appropriately;
 - iv) a Local Firefighters' Pension Board member having a conflict of interest which cannot be managed in accordance with the Local Pension Boards **Code of Conduct and Conflict of Interests Policy**;
 - v) a Local Firefighters' Pension Board member becomes responsible for the discharge of any function of the Scheme Manager under the Regulations;
 - vi) the Scheme Manager may at its discretion terminate the membership of a Local Firefighters' Pension Board member if it believes that it appropriate and is consistent with the role of the Local Firefighters' Pension Board to do so.

8. Conflict of Interests

- 8.1 The Scheme Manager will approve a **Code of Conduct and Conflict of Interest policy** which will be adopted by the Local Firefighters' Pension Board and which members of the Local Firefighters' Pension Board will need to abide by. Members of the Local Firefighters' Pension Board will provide any information the Scheme Manager reasonably requires from time to time to ensure that members do not have a conflict of interest.

9. Knowledge and Skills

- 9.1 In accordance with section 248A of the Pensions Act 2004 ("the 2004 Act"), every individual who is a member of a Local Firefighters' Pension Board must be conversant with:
- i) the regulations governing the FFPS; and
 - ii) any document or policy about the administration of the Fund.
- 9.2 Local Firefighters' Pension Board members should also have a knowledge and understanding of:
- i) the law relating to pensions; and
 - ii) such other matters as may be prescribed.
- 9.3 Local Firefighters' Pension Board shall adhere to the Scheme Manager's **Attendance and Knowledge and Understanding Policy** to address the knowledge and skills requirements that apply to Local Pension Board members under the 2004 Act.
- 9.4 It is for individual Local Firefighters' Pension Board members to ensure they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Local Pension Board.
- 9.5 In line with this requirement Local Firefighters' Pension Board, members must be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Local Firefighters' Pension Board members are therefore required to maintain a written record of relevant training and development.
- 9.6 Local Firefighters' Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Local Pension Board members will comply with the Scheme Manager's **Attendance and Knowledge and Understanding Policy**.

10. Local Firefighters' Pension Board Meetings: Notice and Public Access to Pension Board Meetings and Information

- 10.1 There will be a sufficient number of meetings to enable the Local Firefighters' Pension Board to discharge its functions effectively, as decided by the Chairman of the Local Firefighters' Pension Board with the consent of the Local Firefighters' Pension Board members, and at least one Local Firefighters' Pension Board meetings a year.
- 10.2 The Scheme Manager shall give notice to all Local Firefighters' Pension Board members of every meeting of the Local Pension Board, which will be held in public (apart from confidential matters). All members will normally be

sent an agenda and papers at least five working days before the meeting unless an urgent meeting is required.

- 10.3 Any meeting of the Local Firefighters' Pension Board will include provision for confidential matters or matters that would involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the local Government Act 1972 to be dealt with privately in Part 2 and any documents in connection with such matters will be dealt with confidentially.
- 10.4 The Scheme Manager shall ensure that a formal record of Local Firefighters' Pension Board proceedings is maintained. Following the approval of the minutes by the Chairman of the Local Firefighters' Pension Board, they shall be circulated to all members.
- 10.5 All agendas, reports and minutes will be available on the website except for any confidential or exempt matters.
- 10.6 The Local Firefighters' Pension Board may exclude items in agenda, reports and minutes on the grounds that disclosure would involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it is deemed confidential for the purpose of Section 100A(2) of that Act and/or it represents data covered by the Data Protection Act 1998.
- 10.7 In accordance with the Public Service Pensions Act 2013, the Scheme Manager shall publish information about the Local Firefighters' Pension Board to include:
- i) the names of the Local Firefighters' Pension Board members and their contact details;
 - ii) the representatives of employers and members of the Local Firefighters' Pension Board;
 - iii) the role of the Local Firefighters' Pension Board;
 - iv) the Terms of Reference.

11. Quorum

- 11.1 The Local Firefighters' Pension Board shall have a quorum of no fewer than two members which should always include the Chairman or the Vice Chairman, at least one employer representative and at least one member representative.

12. Local Firefighters' Pension Board Costs and Budget

- 12.1 The Local Firefighters' Pension Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Local Firefighters' Pension Board will be met from the Scheme Manager.
- 12.2 The Local Firefighters' Pension Board will seek approval from the Strategic Finance Manager, Pension Fund and Treasury for any expenditure it wishes to make.

13. Core functions of the Local Firefighters' Pension Board

- 13.1 The first core function of the Local Firefighters' Pension Board is to assist the Scheme Manager in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme and requirements imposed by the Pensions Regulator in relation to the Scheme.

- 13.2 The second core function of the Local Firefighters' Pension Board is to ensure the effective and efficient governance and administration of the Scheme.
- 13.3 In support of its core functions the Local Firefighters' Pension Board may request information from the Scheme Manager with regard to any aspect of the Scheme Manager function. Any such request should be reasonably complied with.
- 13.4 The Local Firefighters' Pension Board may make recommendations to the Scheme Manager. This recommendations should be given due consideration and a response made to the Local Firefighters' Pension Board within a reasonable period of time.

14. Reporting arrangements

- 14.1 The Local Firefighters' Pension Board should report to the Scheme Manager in the first instance.
- 14.2 On receipt of a report from the Local Firefighters' Pension Board the Scheme Manager should consider and respond to the Local Firefighters' Pension Board within a reasonable period of time.
- 14.3 Where the Local Firefighters' Pension Board is satisfied that there has been a breach of regulation which is reported to the Scheme Manager and is not been rectified within a reasonable period of time the Local Firefighters' Pension Board has a duty to escalate this perceived breach.
- 14.4 The appropriate internal route for escalation is the Strategic Finance Manager, Pension Fund and Treasury.
- 14.5 The Local Firefighters' Pension Board may report concerns to the FFPS Scheme Advisory Board subsequent to the internal route for escalation.
- 14.6 Local Firefighters' Pension Board members are subject to the requirement to report breaches of law to the Pensions Regulator under the Act and the Code and the whistle blowing policy of the Administering Authority.

15. Local Firefighters' Pension Board Review Process

- 15.1 The Local Firefighters' Pension Board will undertake each year a formal review process to assess how well it and the members are performing with a view to seeking continuous improvement in the Local Firefighters' Pension Board's performance.

16. Advisors to the Local Firefighters' Pension Board

- 16.1 The Local Firefighters' Pension Board may be supported in its role and responsibilities through the appointment of advisors and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisors to the Local Firefighters' Pension Board and on such terms as it shall see fit to help better perform its duties including:
- i) any Governance Adviser;
 - ii) the Scheme Manager;
 - iii) other advisors as approved by the Scheme Manager.
- 16.2 The Local Firefighters' Pension Board shall ensure that the performances of the advisors so appointed are reviewed on a regular basis.

17. Code of Conduct

- 17.1 The Scheme Manager will approve a Code of Conduct and Conflict of Interest policy which will be adopted by the Local Firefighters' Pension Board and which members of the Local Firefighters' Pension Board will need to abide by.

18. Data Protection and Freedom of Information

- 18.1 The Local Firefighters' Pension Board and its members will need to comply with the Scheme Manager's Data Protection and Freedom of Information Policy.

19. Accountability

- 19.1 The Local Firefighters' Pension Board will be collectively and individually accountable to the Scheme Manager and to the Pensions Regulator.

20. Acceptance and Review of Terms of Reference

- 20.1 These Terms of Reference will be reviewed on each amendment to those parts of the Regulations covering Local Firefighters' Pension Board.
- 20.2 The Terms of Reference was adopted on 17 March 2015.
- 20.3 Version 2 of the Terms of Reference was adopted on 28 September 2015.

THE SURREY LOCAL FIREFIGHTERS' PENSION BOARD

TERMS OF REFERENCE



Surrey Local Firefighters' Pension Board

Membership: Total five

Two employee representatives
Two employer representatives
The Local Firefighters' Pension Board may also contain one other independent member

Terms of Reference

1. Introduction

- 1.1 This document sets out the terms of reference of the Local Firefighters' Pension Board of Surrey County Council (the 'Fire and Rescue Authority'), a scheme manager as defined under Section 4 of the Public Service Act 2013.
- 1.2 The Local Firefighters' Pension Board is established in accordance with Section 5 of that Act and under draft Regulation 4A of the Firefighters' Pension Scheme (FFPS) (England) Regulations 2014 (as amended).

2. Role of the Local Firefighters' Pension Board

- 2.1 The role of the Local Firefighters' Pension Board, as defined in the Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015, is to assist the Fire and Rescue Authority Scheme Manager:
 - (a) to secure compliance with:
 - (i) the scheme regulations;
 - (ii) any other legislation relating to the governance and administration of the Firefighters' Pension Scheme and any connected scheme;
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Firefighters' Pension Scheme.
 - (b) to ensure the effective and efficient governance and administration of the Firefighters' Pension Scheme.
- 2.2 The Local Firefighters' Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.3 The Local Firefighters' Pension Board will also help ensure that the Firefighters' Pension Scheme is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

- 2.4 The Local Firefighters' Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.
- 2.5 The Local Firefighters' Pension Board should always act within its terms of reference.

3. Establishment of the Local Firefighters' Pension Board

- 3.1 The Local Firefighters' Pension Board is established on 1 April 2015 subsequent to approval by Surrey County Council on 17 March 2015.

4. Appointment of members of the Local Firefighters' Pension Board and voting rights of Local Firefighters' Pension Board members

- 4.1 The composition of the members of the Local Firefighters' Pension Board is as follows:

The Local Firefighters' Pension Board shall consist of at least four members and may contain up to five members. It shall be constituted as follows:

- i) Two employer representatives;
 - ii) Two scheme member (employee) representatives;
 - iii) The Local Firefighters' Pension Board may also contain one independent member.
- 4.2 Scheme member and employer representatives shall be appointed in equal number and shall together form the majority of the Local Firefighters' Pension Board's membership.
- 4.3 No officer or elected member of the Fire and Rescue Authority who is responsible for the discharge of any Scheme Manager functions of the Fire and Rescue Authority under the Regulations may serve as a member of the Local Firefighters' Pension Board.
- 4.4 Each Local Firefighters' Pension Board member so appointed shall serve for the life of the current Surrey County Council, a defined, fixed period which can be extended for further periods subject to re-nomination.
- 4.5 Each Local Firefighters' Pension Board member should endeavour to attend all Board meetings during the year. Substitutes will be permitted to attend on behalf of absent Local Firefighters' Pension Board members but must meet the requirements of section 9.
- 4.7 Each Local Firefighters' Pension Board member should participate in training when required.
- 4.8 Members of the Local Firefighters' Pension Board shall be appointed by the Scheme Manager (the Appointment Panel) in accordance with the **Appointment and Termination Process**.
- 4.9 The Appointment Panel shall be made up of the following:
- the Chairman of People, Performance and Development Committee;
 - the Strategic Finance Manager (Pension Fund and Treasury);
 - the Director of Finance (or her nominee);
 - the Director of Legal and Democratic Services (or her nominee);
 - the Chief Fire Officer (or his nominee).

- 4.10 Each employer representative and member representative of the Local Firefighters' Pension Board will have an individual vote on any matter needing a decision. The independent member of the Local Firefighters' Pension Board does not have voting rights. It is expected that the Local Firefighters' Pension Board will, as far as possible, reach a consensus. If a consensus is not reached the Chairman shall have a casting vote in addition to any vote he may have already cast.

5. Appointment and duties of the Chairman and Vice Chairman of the Local Firefighters' Pension Board

- 5.1 A Chairman and Vice Chairman of the Local Pension Board to be appointed by the Scheme Manager (the Appointment Panel) in accordance with the **Appointment and Termination Process**.
- 5.2 It will be the role of the Chairman of the Local Firefighters' Pension Board to ensure that all members of the Local Firefighters' Pension Board show due respect for process, that all views are fully heard and considered, and to determine when consensus has been met.
- 5.3 The full responsibilities of the Chairman of the Local Firefighters' Pension Board are contained in the Chairman of the Local Firefighters' Pension Board description.
- 5.4 The Vice Chairman shall undertake the duties of the Chairman in the event of the Chairman's absence.

6. Notifications of appointments to the Local Firefighters' Pension Board

- 6.1 When appointments to the Local Firefighters' Pension Board have been made, the Scheme Manager shall publish the name of the Local Firefighters' Pension Board members, the process followed in the appointment together with the way in which the appointment supports the effective delivery of the purpose of the Local Firefighters' Pension Board.

7. Termination of membership of the Local Firefighters' Pension Board

- 7.1 Any termination of membership of the Local Firefighters' Pension Board will be in accordance with the **Appointment and Termination Process**.
- 7.2 Membership of the Local Firefighters' Pension Board may be terminated due to:
- i) a member representative appointed on the basis of their membership of the scheme no longer being a scheme member of the Fund;
 - ii) an employer representative no longer holding the office or employment or being a member of the body on which their appointment relied;
 - iii) a Local Firefighters' Pension Board member no longer being able to demonstrate to the Scheme Manager their capacity to attend and prepare for meetings or to participate in required training or otherwise to carry out the requirements of the role appropriately;
 - iv) a Local Firefighters' Pension Board member having a conflict of interest which cannot be managed in accordance with the Local Pension Boards **Code of Conduct and Conflict of Interests Policy**;

- v) a Local Firefighters' Pension Board member becomes responsible for the discharge of any function of the Scheme Manager under the Regulations;
- vi) the Scheme Manager may at its discretion terminate the membership of a Local Firefighters' Pension Board member if it believes that it appropriate and is consistent with the role of the Local Firefighters' Pension Board to do so.

8. Conflict of Interests

- 8.1 The Scheme Manager will approve a **Code of Conduct and Conflict of Interest policy** which will be adopted by the Local Firefighters' Pension Board and which members of the Local Firefighters' Pension Board will need to abide by. Members of the Local Firefighters' Pension Board will provide any information the Scheme Manager reasonably requires from time to time to ensure that members do not have a conflict of interest.

9. Knowledge and Skills

- 9.1 In accordance with section 248A of the Pensions Act 2004 ("the 2004 Act"), every individual who is a member of a Local Firefighters' Pension Board must be conversant with:

- i) the regulations governing the FFPS; and
- ii) any document or policy about the administration of the Fund.

- 9.2 Local Firefighters' Pension Board members should also have a knowledge and understanding of:

- i) the law relating to pensions; and
- ii) such other matters as may be prescribed.

- 9.3 Local Firefighters' Pension Board shall adhere to the Scheme Manager's **Attendance and Knowledge and Understanding Policy** to address the knowledge and skills requirements that apply to Local Pension Board members under the 2004 Act.

- 9.4 It is for individual Local Firefighters' Pension Board members to ensure they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Local Pension Board.

- 9.5 In line with this requirement Local Firefighters' Pension Board, members must be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Local Firefighters' Pension Board members are therefore required to maintain a written record of relevant training and development.

- 9.6 Local Firefighters' Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Local Pension Board members will comply with the Scheme Manager's **Attendance and Knowledge and Understanding Policy**.

10. Local Firefighters' Pension Board Meetings: Notice and Public Access to Pension Board Meetings and Information

- 10.1 There will be a sufficient number of meetings to enable the Local Firefighters' Pension Board to discharge its functions effectively, as decided by the Chairman of the Local Firefighters' Pension Board with the consent of the

Local Firefighters' Pension Board members, and at least one Local Firefighters' Pension Board meetings a year.

- 10.2 The Scheme Manager shall give notice to all Local Firefighters' Pension Board members of every meeting of the Local Pension Board, which will be held in public (apart from confidential matters). All members will normally be sent an agenda and papers at least five working days before the meeting unless an urgent meeting is required.
- 10.3 Any meeting of the Local Firefighters' Pension Board will include provision for confidential matters or matters that would involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the local Government Act 1972 to be dealt with privately in Part 2 and any documents in connection with such matters will be dealt with confidentially.
- 10.4 The Scheme Manager shall ensure that a formal record of Local Firefighters' Pension Board proceedings is maintained. Following the approval of the minutes by the Chairman of the Local Firefighters' Pension Board, they shall be circulated to all members.
- 10.5 All agendas, reports and minutes will be available on the website except for any confidential or exempt matters.
- 10.6 The Local Firefighters' Pension Board may exclude items in agenda, reports and minutes on the grounds that disclosure would involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it is deemed confidential for the purpose of Section 100A(2) of that Act and/or it represents data covered by the Data Protection Act 1998.
- 10.7 In accordance with the Public Service Pensions Act 2013, the Scheme Manager shall publish information about the Local Firefighters' Pension Board to include:
 - i) the names of the Local Firefighters' Pension Board members and their contact details;
 - ii) the representatives of employers and members of the Local Firefighters' Pension Board;
 - iii) the role of the Local Firefighters' Pension Board;
 - iv) the Terms of Reference.

11. Quorum

- 11.1 The Local Firefighters' Pension Board shall have a quorum of no fewer than two members which should always include the Chairman or the Vice Chairman, at least one employer representative and at least one member representative.

12. Local Firefighters' Pension Board Costs and Budget

- 12.1 The Local Firefighters' Pension Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Local Firefighters' Pension Board will be met from the Scheme Manager.
- 12.2 The Local Firefighters' Pension Board will seek approval from the Strategic Finance Manager, Pension Fund and Treasury for any expenditure it wishes to make.

13. Core functions of the Local Firefighters' Pension Board

- 13.1 The first core function of the Local Firefighters' Pension Board is to assist the Scheme Manager in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme and requirements imposed by the Pensions Regulator in relation to the Scheme.
- 13.2 The second core function of the Local Firefighters' Pension Board is to ensure the effective and efficient governance and administration of the Scheme.
- 13.3 In support of its core functions the Local Firefighters' Pension Board may request information from the Scheme Manager with regard to any aspect of the Scheme Manager function. Any such request should be reasonably complied with.
- 13.4 The Local Firefighters' Pension Board may make recommendations to the Scheme Manager. This recommendations should be given due consideration and a response made to the Local Firefighters' Pension Board within a reasonable period of time.

14. Reporting arrangements

- 14.1 The Local Firefighters' Pension Board should report to the Scheme Manager in the first instance.
- 14.2 On receipt of a report from the Local Firefighters' Pension Board the Scheme Manager should consider and respond to the Local Firefighters' Pension Board within a reasonable period of time.
- 14.3 Where the Local Firefighters' Pension Board is satisfied that there has been a breach of regulation which is reported to the Scheme Manager and is not been rectified within a reasonable period of time the Local Firefighters' Pension Board has a duty to escalate this perceived breach.
- 14.4 The appropriate internal route for escalation is the Strategic Finance Manager, Pension Fund and Treasury.
- 14.5 The Local Firefighters' Pension Board may report concerns to the FFPS Scheme Advisory Board subsequent to the internal route for escalation.
- 14.6 Local Firefighters' Pension Board members are subject to the requirement to report breaches of law to the Pensions Regulator under the Act and the Code and the whistle blowing policy of the Administering Authority.

15. Local Firefighters' Pension Board Review Process

- 15.1 The Local Firefighters' Pension Board will undertake each year a formal review process to assess how well it and the members are performing with a view to seeking continuous improvement in the Local Firefighters' Pension Board's performance.

16. Advisors to the Local Firefighters' Pension Board

- 16.1 The Local Firefighters' Pension Board may be supported in its role and responsibilities through the appointment of advisors and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisors to the Local Firefighters' Pension Board and on such terms as it shall see fit to help better perform its duties including:
 - i) any Governance Adviser;

- ii) the Scheme Manager;
- iii) other advisors as approved by the Scheme Manager.

16.2 The Local Firefighters' Pension Board shall ensure that the performances of the advisors so appointed are reviewed on a regular basis.

17. Code of Conduct

17.1 The Scheme Manager will approve a Code of Conduct and Conflict of Interest policy which will be adopted by the Local Firefighters' Pension Board and which members of the Local Firefighters' Pension Board will need to abide by.

18. Data Protection and Freedom of Information

18.1 The Local Firefighters' Pension Board and its members will need to comply with the Scheme Manager's Data Protection and Freedom of Information Policy.

19. Accountability

19.1 The Local Firefighters' Pension Board will be collectively and individually accountable to the Scheme Manager and to the Pensions Regulator.

20. Acceptance and Review of Terms of Reference

20.1 These Terms of Reference will be reviewed on each amendment to those parts of the Regulations covering Local Firefighters' Pension Board.

20.2 The Terms of Reference were adopted on 17 March 2015.

20.3 Version 2 of the Terms of Reference was adopted on 28 September 2015.

20.4 Version 3 of the Terms of Reference was adopted on xxxx.

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