

## Notice of Meeting

# Audit & Governance Committee

**Date & time**

Wednesday, 29  
January 2020  
at 10.30 am

**Place**

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

**Contact**

Joss Butler  
Room 122, County Hall  
Tel 020 8541 9702

[joss.butler@surreycc.gov.uk](mailto:joss.butler@surreycc.gov.uk)

**Chief Executive**

Joanna Killian



We're on Twitter:  
[@SCCdemocracy](https://twitter.com/SCCdemocracy)

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

**Members**

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Dr Peter Szanto, Mr 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 - 17 DECEMBER 2019**

(Pages 1  
- 6)

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

### **3 DECLARATIONS OF INTEREST**

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

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

#### **NOTES:**

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

### **4 QUESTIONS AND PETITIONS**

To receive any questions or petitions.

#### **Notes:**

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*23 January 2020*).
2. The deadline for public questions is seven days before the meeting (*22 January 2020*)
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

### **5 RECOMMENDATIONS TRACKER**

(Pages 7  
- 12)

To review the Committee's recommendations tracker.

### **6 TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21**

(Pages  
13 - 38)

This report sets out the Council's Treasury Management Strategy for 2020/21, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

## **7 GRANT THORNTON: 2019/20 EXTERNAL AUDIT PLAN**

(Pages  
39 - 62)

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2019/20 financial statements of the Council and the Surrey Pension Fund.

## **8 DATE OF NEXT MEETING**

The next meeting of Audit & Governance Committee will be on 24 April 2020.

**Joanna Killian**  
**Chief Executive**

Published: 21 January 2020

### **MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE**

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*Thank you for your co-operation*

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**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 17 December 2019 at Room 104, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

**Elected Members:**

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

**49/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

There were none.

**50/19 MINUTES OF THE PREVIOUS MEETING - 26 SEPTEMBER 2019 [Item 2]**

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

**51/19 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**52/19 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**53/19 RECOMMENDATIONS TRACKER [Item 5]**

**Witnesses:**

David John, Audit Manager  
Zak Hussain, Interim Strategic Finance Manager (Corporate)  
Joss Butler, Committee Manager

**Key points raised during the discussion:**

1. In regards to Action A2/19, the Audit Manager informed the Committee that the Children, Families & Learning Care Assessments follow-up audit was in its draft phase and officers hoped to circulate a final version by February or March 2020. Members noted that there had been improvements in the service and that the follow-up audit was expected to be positive. The Chairman asked that the action remain on the Actions Tracker.
2. In regards to Action A8/19, the Chairman informed the Committee that the issue had been reported to the Select Committee Chairman's Group and no concerns were raised. The Committee agreed the mark the action as completed.
3. In regards to Action A11/19, the Interim Strategic Finance Manager informed Members that the risk review was completed in November 2019 and conducted by Gallagher Bassett. A final report was in the

process of being collated and officers expected it to be part of the April 2020 Committee agenda. This would follow consideration by the Council's Corporate Leadership Team.

4. Members had a discussion on whether Local and Joint Committees considered and tracked risks as part of their decision making processes. It was stated that, although the decisions made at Local Committees were focussed on local issues, the execution of the decisions were mostly the County Council's responsibility and therefore it should be the County Council's responsibility to track risks. The Chairman agreed to speak to the Cabinet portfolio holder responsible for Local and Joint Committees to ensure Local Committees reviewed risks when appropriate.
5. In regards to Action 13/19, the Audit Manager informed Members that the actions agreed from the last Pensions Administration audit were still not fully implemented due to the complexity and scale of the task. As a result, rather than a follow-up audit being started in December as planned, it had been agreed with the service and with Finance that a position statement to assess the current position of implementation of agreed actions would provide appropriate assurance. This work will be started in January.
6. In regards to Action A15/19, the Committee Manager highlighted that all Select Committee dates until May 2020 had been circulated and Members were asked to confirm which meetings they would review. Members agreed to confirm outside the meeting. In regards to previous Select Committee meetings, Members made the following comments:
  - a. A Member recently attend a Resource & Performance Select Committee Task Group meeting and felt it was a positive. The Member highlighted that they felt Task Groups should encourage non-Task Group Members in attendance to interact with discussions.
  - b. During a Select Committee Meeting, a Member highlighted that the Select Committee's Chairman was unable to secure an appropriate number of Members to join a Task Group. Following on from this, Members of the Audit and Governance Committee sought confirmation on whether a non-Select Committee Member was able to join a Select Committee's Task Group. The Committee Manager agreed to provide a response outside of the meeting.

**Action/Further information to note:**

A16/19 - The Chairman agreed to speak to the Cabinet portfolio holder responsible for Local and Joint Committees to ensure Local Committees reviewed risks when appropriate.

A17/19 – The Committee Manager to circulate confirmation on whether a non-Select Committee Member was able to join a Select Committee's Task Group.

**RESOLVED:**

That the committee noted the report.

**54/19 TREASURY MANAGEMENT MID YEAR REPORT [Item 6]**

**Witnesses:**

Zak Hussain, Interim Strategic Finance Manager (Corporate)

**Key points raised during the discussion:**

1. The Interim Strategic Finance Manager introduced the item and provided a brief summary of the report. Members noted that from 31 March 2019 to 30 September 2019 the net borrowing requirement for the Council increased by £19m, from £635m to £654m. External borrowing reduced by £11m from £666m to £655m. It was also noted that during the period £30m of external longer term borrowing was undertaken with the Public Works Loan Board. Officers further highlighted that, due to an underline weakness in the global economy, the Council's financial advisors had advised that a short term borrowing strategy is followed over the next 12 months. In regards to investment, Members noted that the Council would continue to place cash in money market funds. Members further noted that the Treasury Management Strategy would be considered by the Committee in January 2020.
2. Members of the Committee asked whether the Council intended to modify the limits of the operational boundary to fulfil newer strategies such as the Special Educational Needs & Disabilities (SEND) Strategy. Officers confirmed that affordability assessments were undertaken which showed that the Council's Strategies were able to operate within operational boundary.
3. Officers stated that consideration was being put into lowering the operational boundary as it was currently too high. Members advised against this as there was concern there would be slippage in the capital programme and therefore flexibility would be beneficial.

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

None.

**Resolved:**

The Audit & Governance Committee noted the content of the Treasury Management Half Year Report for 2019/20.

**55/19 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (01/07/19 - 30/09/19) [Item 7]**

**Witnesses:**

David John, Audit Manager

**Key points raised during the discussion:**

1. The Audit Manager introduced the item and provided a brief summary of the report. Members noted that the report included a summary of nine full audit reports which had been previously circulated to Members. Officers stated that the general trend for audit outcomes were positive although there was one area of concern due to the Health and Safety audit receiving partial assurance. Members noted

that the service response to the audit was positive as the new Head of Property was focusing on Health and Safety and had put in place a number of improvements.

2. A Member of the Committee asked why three audits had received no opinion. Officers provided an overview of each audit, as outlined in Appendix A, and explained that the reason no opinion was given was because the audits were either position statements or briefings for management.
3. In regards to the audit for the E-Recruitment System, Members asked whether the issue relating to the identification of an area that could be non-compliant with General Data Protection Regulation (GDPR) requirements had been resolved. Officers confirmed that this was no longer an issue.
4. Members of the Committee discussed the reason why very few audits received substantial assurance. Members noted that the Audit Service sought to always improve the area being audited and so it was unlikely to receive a perfect evaluation.
5. Members noted that an assessment of the progress made following the Health and Safety Audit was likely to take place in January or February 2020.

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

None.

**Resolved:**

The Committee noted the report.

**56/19 2018/19 AUDIT FINDINGS REPORT AND ANNUAL STATEMENT OF ACCOUNTS FOR S. E. BUSINESS SERVICES LTD, SURREY CHOICES LTD & HALSEY GARTON PROPERTY LTD [Item 8]**

**Witnesses:**

Sonia Sharma, Strategic Finance Manager – Commercial  
Ciaran McLaughlin, Grant Thornton

**Key points raised during the discussion:**

1. Members noted that the audit findings report for Halsey Garton Property LTD had not received final sign off and so could not be considered by the Committee.
2. The representative from Grant Thornton introduced the report and provided a brief summary. Members noted that both S. E. Business Services LTD and Surrey Choices LTD audit findings reports had not found any significant risks and both receive an unqualified opinion. Members noted further details which were outlined in Annex 1 – 4 of the report.

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

None.

**Resolved:**



That the Audit and Governance Committee considered the contents of the 2018/19 Audit Findings Report for S. E. Business Services Ltd and Surrey Choices Ltd.

#### **57/19 EXTERNAL AUDIT UPDATE REPORT [Item 9]**

**Witnesses:**

Tom Beake, Grant Thornton

**Key points raised during the discussion:**

1. The representative from Grant Thornton introduced the item and provided a summary of the report. Members noted that the report aimed to update the Committee on progress and that key details were found on pages 128 and 129 of the agenda.
2. Members of the Committee discussed a recent news article regarding a development in Surrey and asked whether there was a process to externally audit a development or service following public interest. A Member of the Committee highlighted that a Cabinet Member had previously confirmed that there was a process in place to assess and reappraise previous decisions. It was stated that this process was to consider whether the developments outcome met expectations with the aim to continuously improve.
3. Members asked whether the Committee would have an opportunity to review the Council's Statement of Accounts before publication. The Strategic Finance Business Partner agreed to provide a response outside of the meeting.

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

A18/19 - Members asked whether the Committee would have an opportunity to review the Council's Statement of Accounts before publication. The Strategic Finance Business Partner agreed to provide a response outside of the meeting.

**Resolved:**

The Committee noted the report.

#### **58/19 LOCAL FIREFIGHTERS' PENSIONS BOARD [Item 10]**

**Witnesses:**

Cllr Nick Harrison, Chairman of the Local Firefighters' Pension Board

**Key points raised during the discussion:**

1. The Chairman of the Local Firefighters' Pension Board introduced the item and provided an outline of the report. Members noted that the report asked that the Committee agree to the changes to the Terms of Reference to allow Local Firefighters' Pension Board Members to delegate attendance.
2. Members noted that substitutes would be required to complete an online test related to the law related to pensions and other relevant information.

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

None.

**Resolved:**

The Committee approved the changes to the Terms of Reference to allow Local Firefighters' Pension Board Members to delegate attendance.

**59/19 DATE OF NEXT MEETING [Item 11]**

The date of the meeting was noted to be on 29 January 2020.

Meeting ended at: 12.10 pm

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**Chairman**



## Audit & Governance Committee

29 January 2020

### RECOMMENDATIONS TRACKER

#### **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.

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**REPORT CONTACT:** Joss Butler, Committee Manager  
[joss.butler@surreycc.gov.uk](mailto: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 <b>(reinstated)</b>	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> <p>17/12/2019 - Audit Manager informed the Committee that the follow-up audit was in its draft phase and officers hoped to circulate a final version by February or March 2020. Members noted that there had been improvements in the service and that the follow-up audit was expected to be positive. The Chairman asked that the action remain on the Actions Tracker.</p>

## Annex A

## Audit &amp; 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	17/12/19 - The Interim Strategic Finance Manager informed Members that the risk review was completed in November 2019 and conducted by Gallagher Bassett. A final report was in the process of being collated and officers expected it to be part of the April 2020 committee agenda. This would follow consideration by the Council's Corporate Leadership Team.
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.  December – the Chairman attended the Resources and Performance Select Committee and the Children, Families, Lifelong Learning and Culture Select Committee. Mr Szanto attended a Task Group of the Resources and Performance Select Committee
A16/19	17/12/19	Actions Tracker	The Chairman agreed to speak to the Cabinet portfolio holder responsible for Local and Joint Committees to ensure Local Committees reviewed risks when appropriate.	Chairman	

## Audit & Governance Committee Recommendations Tracking

### COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

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	17/12/19 - the Chairman informed the Committee that the issue had been reported to the Select Committee Chairman's Group and no concerns were raised. The Committee agreed the mark the action as completed.
A17/19	17/12/19	Action Tracker	The Committee Manager to circulate confirmation on whether a non-Select Committee Member was able to join a Select Committee's Task Group.	Committee Manager	Confirmation was circulated to Members that non-Select Committee Members are able to join Task Groups although it is at the discretion of the Task Group Chairman.
A18/19	17/12/19	External Audit Update Report	Members asked whether the Committee would have an opportunity to review the Council's Statement of Accounts before publication. The Strategic Finance Business Partner agreed to provide a response outside of the meeting.	Strategic Finance Business Partner	Private Member Briefing on Statement of Accounts scheduled for 29 May 2020.
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	17/12/19 - The Audit Manager informed Members that the actions agreed from the last Pensions Administration audit were still not fully implemented due to the complexity and scale of the task. As a result, rather than a follow-up audit being started in December as planned, it had been agreed with the service and with Finance that a position statement to assess the current position of implementation of agreed actions would provide appropriate assurance. This work will be started in January.

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Audit & Governance Committee  
29 January 2020

**Treasury Management Strategy Statement 2020/21**

**Purpose of the report:**

This report sets out the Council's Treasury Management Strategy for 2020/21, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

**Recommendations:**

The Audit and Governance Committee is asked to approve the Treasury Management Strategy Statement (TMSS) for 2020/21 including the Prudential Indicators.

**Introduction:**

1. The Audit and Governance Committee is asked to approve the Treasury Management Strategy Statement (TMSS) for 2020/21 including the Prudential Indicators.
2. The TMSS is a key part of the Council's overall financial strategy and has been developed alongside the 2020/21 revenue budget and capital programme, with advice from the Council's Treasury Management Advisor, Arlingclose.
3. The TMSS sets out the approach taken by the Council to managing cash flows and associated risks, particularly our borrowing strategy and the safeguarding of our investments. The TMSS ensures that the full costs of funding the capital programme are prudent, sustainable and affordable and that our cash balances are safeguarded whilst delivering an investment return.
4. The Resources & Performance Select Committee provided scrutiny of the draft TMSS on 24 January 2020 and the Final TMSS, in Appendix 1, has been recommended for approval by Cabinet at its meeting 28 January 2020.

## Overview of Treasury Management:

### Summary

5. Treasury Management covers two main areas; borrowing and investment. Together, these manage the Council's overall cash position. The Council's cash position is dictated by three factors:
  - Past and projected borrowing;
  - The level of reserves; and
  - The timing of income and expenditure.
6. The Council works proactively with Arlingclose, to set the strategy and ensure that the best balance is struck between minimising cost, safeguarding investments and managing risk.
7. The Council's approach to treasury management is supported by key prudential and treasury indicators, which are set out in Annex 1 to the TMSS.

### Borrowing

8. Managing the cost of the Council's borrowing is at the heart of the strategy.
9. The Council only borrows to fund capital expenditure after the application of grants, contributions and capital receipts. However, the level of external debt, has historically been substantially less than the underlying borrowing requirement. This is because the Council is able to use its internal resources (reserves and cash surpluses) to minimise the need to borrow externally.
10. Where external borrowing is required, a balance must be struck between taking advantage of low interest rates for short-term borrowing and the certainty that comes with long-term fixed rate loans. The Council continually monitors prevailing economic conditions against its borrowing requirement and seeks regular advice from Arlingclose on the best balance between short and long-term debt.
11. At present, a focus on short-term borrowing has been determined to represent the best balance between cost minimisation and risk management but this is kept under constant review.
12. The TMSS sets limits on the level of overall external debt – an operational boundary. This sets an indication of the expected maximum debt at any given time and an authorised limit which is an absolute legal cap on our total debt, set according to statute.

### Investment

13. The Council usually receives income (for example from Council Tax, Business Rates and Government Grant) in advance of incurring expenditure, leading to surplus cash balances. These are used in the first instance to minimise external borrowing as in the prevailing external environment, the cost of borrowing exceeds available returns from investment. However, the Council needs to maintain a prudent level of liquidity (ability to access cash) and so a level of investment activity is required.
14. The Council maintains relatively low levels of cash balances as it has the ability to access cash quickly and cheaply via borrowing from other Local Authorities. As such the focus for investment is on security and liquidity, rather than high interest rate returns. Security is of paramount concern, particularly given current uncertain economic conditions.
15. The TMSS sets out the approach to investment, including approved limits for investment counterparties, set according to their credit limit, and maximum amounts to be invested with any one counterparty.

#### **Conclusion:**

16. The TMSS sets out the Council's strategy for managing its borrowing and investments to deliver best value for money and a balanced approach to managing risk. The TMSS has been set out according to the legal framework and best practice and supports the delivery of the Council's budget, capital programme and Medium Term Financial Strategy.

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

17. The impact of this strategy on the interest paid and interest receivable budgets are included within Appendix 1 and have also been factored into the Medium-Term Financial Strategy for 2020/21.

#### **Equalities and Diversity Implications**

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

#### **Risk Management Implications**

19. The Authority measures and manages its exposures to treasury management risks using indicators outlined in Annex 1 of Appendix 1.

#### **Next steps:**

20. The Treasury Team will monitor borrowing and cash investments and will continue to update this Committee as appropriate.
21. A half-year monitoring report and full-year report for 2020/21 will be presented to this committee.

**Report contact:** Zak Hussain, Strategic Finance Manager (Corporate)

**Contact details:** [zakaria.hussain@surreycc.gov.uk](mailto:zakaria.hussain@surreycc.gov.uk)

**Sources/background papers:**

- CIPFA Code of Practice for Treasury Management in the Public Services (Revised)
- [2020/21 Final Budget and Medium-Term Financial Strategy](#), 28 January 2020

## Treasury Management Strategy Statement 2020/21

### Introduction

1. Treasury management at Surrey County Council is conducted within the framework of 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 Council to approve a treasury management strategy before the start of each financial year.
2. In addition, the Ministry of Housing, Communities and Local Government (MHCLG) issued revised Statutory Guidance on Local Government Investment in February 2018. The new requirements of the MHCLG Investment Guidance are covered in the Council's Capital and Investment Strategy, which will be considered by Council on 4<sup>th</sup> February.
3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. A full set of Prudential Indicators and Treasury Indicators are set out in Annex 1.
4. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
5. Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategies and therefore this strategy relates solely to borrowing and investments undertaken as part of the daily treasury management activities.
6. Managing the cost of the Council's borrowing is at the heart of the strategy and we work proactively with our Treasury Management advisor, Arlingclose, to ensure that our approach represents the best balance between minimising cost and managing the risk of interest rate changes. Our strategy is under constant review throughout the year.

### External Context

7. **Economic background:** Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.
8. **Interest rate forecast:** The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on post-Brexit trade arrangements and the continuing global economic slowdown.

9. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.
10. For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 1%, and that new long-term loans will be borrowed at an average rate of 3%.

#### Local Context:

11. On 31 March 2019 the Council held £676m of short and long-term borrowing and £31m of investments. By 31<sup>st</sup> December 2019, this changed slightly to £674m of borrowing and £11m of investments. 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. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Internal borrowing allows the Council to utilise its internal cash balances (i.e. working capital and reserves) which are not required in the short to medium-term in order to reduce risk and keep interest costs low. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

**Table 1 - Balance sheet summary and forecast**

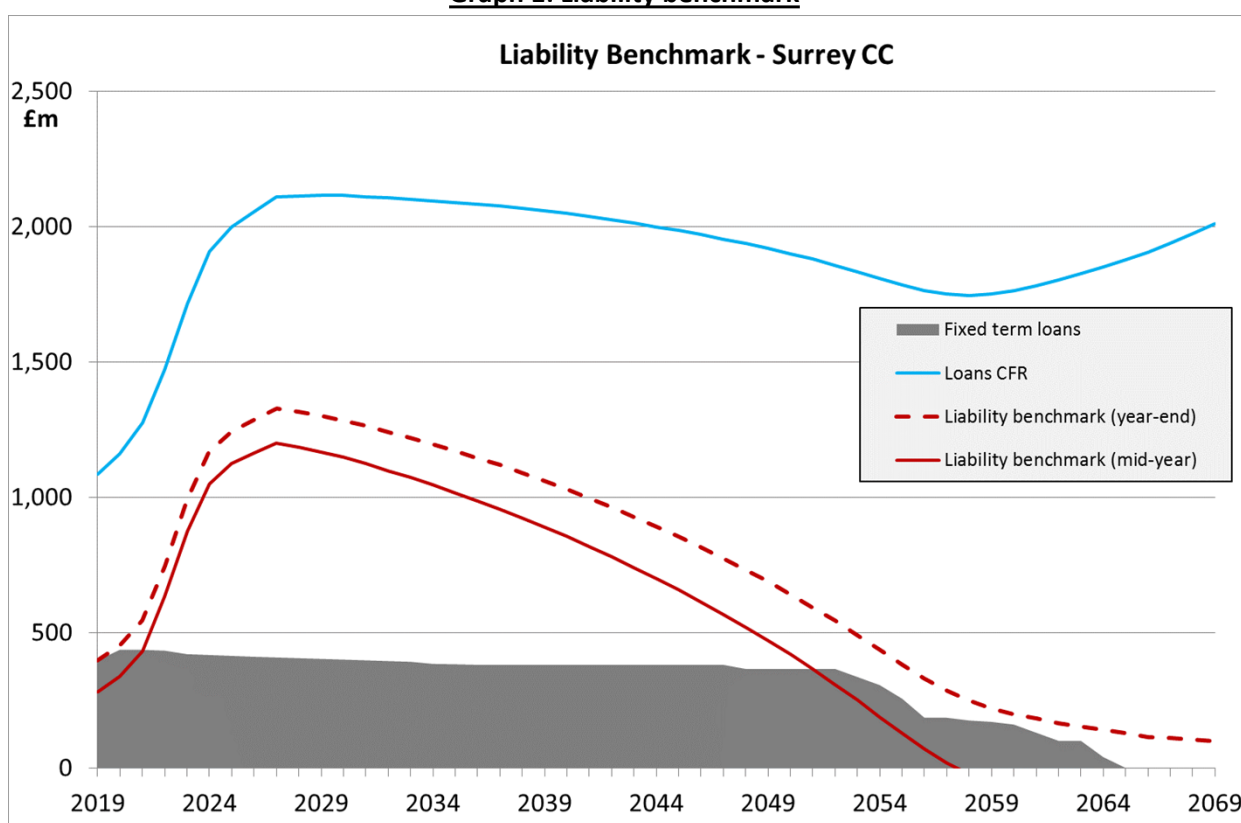
	<b>31.3.19 Actual £m</b>	<b>31.3.20 Estimate £m</b>	<b>31.3.21 Forecast £m</b>	<b>31.3.22 Forecast £m</b>	<b>31.3.23 Forecast £m</b>	<b>31.3.24 Forecast £m</b>	<b>31.3.25 Forecast £m</b>
General Fund CFR	1,217	1,269	1,422	1,598	1,816	1,985	2,074
Less: PFI and lease liabilities	(132)	(114)	(136)	(119)	(98)	(80)	(58)
<b>Net CFR (underlying need to borrow)</b>	<b>1,085</b>	<b>1,155</b>	<b>1,286</b>	<b>1,479</b>	<b>1,718</b>	<b>1,905</b>	<b>2,016</b>
Less: External borrowing (long term)	(397)	(437)	(436)	(433)	(420)	(417)	(414)
Internal borrowing (based on projected reserves, balances and working capital)	(409)	(429)	(449)	(441)	(440)	(447)	(454)
<b>Projected additional external borrowing requirement</b>	<b>278</b>	<b>289</b>	<b>401</b>	<b>605</b>	<b>858</b>	<b>1,041</b>	<b>1,148</b>

12. The Council has an increasing CFR over the period to 31 March 2025, due to the proposed Capital Programme and approved investment strategy projects. The maximisation of internal borrowing

leads to a borrowing requirement above the Council's ability to utilise its internal resources to fund this capital expenditure. It will therefore be required to raise additional external borrowing over the forecast period.

13. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2020/21.
14. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the Council's projected treasury management position over the next 50 years.

**Graph 1: Liability benchmark**



15. The long-term liability benchmark assumes:

- Capital expenditure funded by borrowing as per the 2020-25 Capital Programme
- Projects included in the Capital Programme (Budget and Pipeline) and approved investment strategy spend are included
- Minimum Revenue Provision (MRP) on new capital expenditure is based on the existing MRP policy
- Reserves and Balances are based on proposed and approved use over the life of the Medium-term Financial Plan (MTFS) and increase by inflation of 2.5% a year thereafter.

16. As illustrated in the graph above, the difference between the CFR (underlying need to borrow) and actual external borrowing is funded from Reserves and Balances (internal borrowing). The current

strategy to internally borrow continues to support the Council's financial position in the short to medium-term.

17. As shown, the Council's current debt portfolio is long dated and there are no significant repayments until the 2050s.

### **Borrowing Strategy**

18. The Council is projected to have £726m of borrowing as at the end of March 2020, an increase of £50m since 31 March 2019. Long term borrowing has increased from £397m at 31 March 2019 to £437m - £40m of long-term loans were taken out as part of a balanced approach to managing interest rate risk. Short-term borrowing is expected to increase by £10m by the end of the year.
19. **Objectives:** The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.
20. **Strategy:** The Council is facing unprecedented financial pressures, principally driven by rising need for services from residents and continuing reductions in government funding. Given these pressures, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, the Council continues to maximise the use of internal resources (internal borrowing) and borrowing short-term to fund the additional requirement based on cash flow forecasts.
21. By doing so, the Council is able to suppress net borrowing costs (despite foregone investment income) and reduce market and credit risk in the investment portfolio. However, short-term borrowing does increase the Council's exposure to changes in interest rates as when short-term loans mature they may need to be replaced at a higher rate of interest. The level of internal / short-term borrowing will be reviewed on a regular basis, taking account of the overall cash position and market forecasts. Arlingclose will assist in this review with 'cost of carry' and breakeven analysis, which will support decisions on whether to take additional longer term external borrowing at fixed rates in 2020/21, with a view to keeping future interest costs low.
22. Alternatively, the Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost without suffering a cost of carry in the intervening period.
23. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
  - Public Works Loan Board (PWLB) and any successor body
  - any institution approved for investments (see below)
  - banks or building societies authorised to operate in the UK
  - UK Local Authorities



- UK public and private sector pension funds (except the Surrey Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable Local Authority bond issues.

24. The Council has previously raised the majority of its long term borrowing from the PWLB. For short-term borrowing, the Council has, and will continue, to use other sources of finance, such as loans from other Local Authorities, pension funds and other public bodies as these are often available at more favourable rates. These short-term loans leave the Council exposed to the risk of interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

25. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative (PFI)
- sale and leaseback

All such sources of finance are subject to a robust options appraisal.

26. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to Local Authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow through the Agency will therefore be the subject of a separate report.

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

### Investment Strategy

28. The Council holds invested funds representing income received in advance of expenditure plus reserves. For the first half of 2019/20, the Council held average balances of £42m, compared to with £39m for the equivalent period in 2018/19. The average return for the first half of 2019/20 was 0.72%. Cash balances are expected to remain low during 2020/21.

29. **Objectives:** The CIPFA Code requires the Council 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 Council'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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
30. **Negative interest rates:** If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
31. **Strategy:** Due to the continuation of the strategy to maximise internal borrowing and use short-term borrowing to manage cash flow shortfalls, investment levels are expected to remain low during 2020/21. The majority of the Council's surplus cash continues to be invested in money market funds and short-term unsecured bank deposits. Money Market Funds offer same-day liquidity, very low or no volatility and also ensure diversification to reduce the security risk of holding the majority of cash deposits with a limited number of UK banks.
32. While the Council's investment balances remain low (less than £100m), Money Market Funds and short-term bank deposits will be utilised, with a cash limit per counterparty/fund of £25m. If the economic situation changes, which results in a decision to undertake additional borrowing, resulting in higher cash balances, other investment counterparties may be considered and the counterparty limits set out below would apply.
33. **Business models:** Under the new International Financial Reporting Standard (IFRS 9) standard, the accounting for certain investments depends on the Council's "business model" for managing them. The new standard requires entities to account for expected credit losses in a timely manner; from the moment when financial instruments are first identified. These investments will continue to be accounted for at amortised cost.
34. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in Table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

35. **Table 2 - Approved investment counterparties and limits**

Credit rating	Banks unsecured	Banks secured	Government*
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£10m 5 years	£20m 20 years	n/a
AA+	£10m 5 years	£20m 10 years	n/a
AA	£10m 4 years	£20m 5 years	n/a
AA-	£10m 3 years	£20m 4 years	n/a
A+	£10m 2 years	£20m 3 years	n/a
A	£10m 13 months	£20m 2 years	n/a
A-	£10m 6 months	£20m 13 months	n/a
None	£1m 6 months	n/a	<b>n/a</b>
Pooled Funds	£25m per fund		

\* UK Local Authorities

This table must be read in conjunction with the notes below.

36. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
37. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
38. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt

from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

39. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and Local Authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
40. **Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
41. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short-term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
42. **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB - and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council's bank, HSBC, has a credit rating of AA-.
43. **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
  - no new investments will be made,
  - any existing investments that can be recalled or sold at no cost will be, and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
44. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will

be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

45. **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis. No investments will be made with an organisation if there are substantive doubts about its credit quality.
46. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills or with other Local Authorities.
47. **Investment limits:** The Council's revenue reserves and balances available to cover investment losses are forecast to be approximately £65m on 31<sup>st</sup> March 2020. In order that no more than 30% of available reserves will be put at risk in the case of a single default, the maximum that will be invested with any one organisation (other than the UK Government) will be £20m and the limit for any one pooled fund will be £25m.

**Table 3 - Investment limits**

	Cash limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£25m per manager
Money Market Funds	£150m in total
Unsecured investments with Building Societies	10m in total

48. **Liquidity management:** The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial

commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

### Treasury Management Indicators

49. The Council measures and manages its exposures to treasury management risks using the following indicators.

50. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

51. Time periods start on the first day of each financial year. The maturity date of borrowing is the date of the loans are due to be repaid.

52. **Principal sums invested for periods longer than 1 year:** The purpose of this indicator is to control the Council'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 will be:

Price risk indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£40m	£20m	£10m

### Other Items

53. There are a number of additional items that the Council is obliged by CIPFA and MHCLG to include in its treasury management strategy.

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

55. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks

that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

56. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
57. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.
58. **Treasury Management Advice:** Surrey County Council has appointed Arlingclose Limited as Treasury management advisers and receives specific advice on investments, debt and capital finance matters.
59. **Treasury Management Training:** Member and Officer training needs are assessed regularly as part of the staff appraisal process. Additional training will be provided as and when there is a change in roles and responsibilities. The Council also benefits from the Orbis partnership Centre of Expertise, which provides a robust Treasury team providing day to day treasury management operational activities to Surrey County Council, Brighton & Hove City Council and East Sussex County Council.

### Financial Implications

60. The budget for investment income in 2020/21 is £300,000, based on an average investment portfolio of £40m at an interest rate of 0.75%. The budget for debt interest paid in 2020/21 is £19m, which is based on a mix of short-term borrowing and the existing long term fixed rate debt portfolio.
61. The CIPFA Code does not prescribe any particular treasury management strategy for Local Authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
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## Annex 1

**Prudential and Treasury Indicators 2020/21**

1. The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.
2. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice.

**Estimates of capital expenditure**

3. The Council's planned capital expenditure and financing is summarised in table 1. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

**Table 1 - Actual and estimated capital expenditure**

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Projected	← ----- Estimated ----- →				
	£m	£m	£m	£m	£m	£m	£m
Capital Programme expenditure	128	161	264	355	328	286	215
Approved investment strategy spend	100	7	13	23	11	9	0
Financed By:							
- Government grants and third party contributions	97	95	101	86	74	76	67
- Capital Receipts	11	5	22	75	0	0	0
- Revenue and reserves	1	1	8	6	6	7	6
<b>Net financing need for the year*</b>	<b>119</b>	<b>67</b>	<b>146</b>	<b>211</b>	<b>259</b>	<b>212</b>	<b>142</b>

\*Capital expenditure to be met by borrowing

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

4. Table 2 sets out the Council's estimated capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR therefore measures a Council's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP).

5. The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage.
6. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.
7. The CFR is increasing over the MTFS period which results in an increase in external debt (after we have maximised internal borrowing) and therefore an increase in the revenue cost of borrowing. This is reflected in an increased Operational Boundary and Authorised Limit as shown in Tables 4 and 5. Table 6 - Ratio of financing costs to net revenue stream, shows that the revenue cost of debt is an increasing but relatively low proportion of our overall budget. The impact of funding the Capital Programme is built into the revenue budget and MTFS.

**Table 2 - Capital Financing Requirement (CFR)**

	2018/19 Actual £m	2019/20 Projected £m	2020/21 ← ----- £m	2021/22 £m	2022/23 Estimated ----- £m	2023/24 £m	2024/25 -----> £m
Opening CFR	1,152	1,235	1,269	1,422	1,598	1,816	1,985
Movements:							
- Minimum revenue provision	(20)	(15)	(15)	(17)	(20)	(25)	(31)
- Application of capital receipts	(29)	0	0	0	0	0	0
- PFI & finance leases	13	(18)	22	(17)	(21)	(18)	(22)
- Net financing need	119	67	146	210	259	212	142
	83	34	153	176	218	169	89
Closing CFR	<b>1,235</b>	<b>1,269</b>	<b>1,422</b>	<b>1,598</b>	<b>1,816</b>	<b>1,985</b>	<b>2,074</b>

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

#### **Gross borrowing and the capital financing requirement**

8. In order to ensure that over the medium-term borrowing will only be for a capital purpose, the Council should ensure that its debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next 2 financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes. This is a key indicator of prudence.

<b>Table 3 - Gross Borrowing Requirement</b>							
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Actual</b>	<b>Projected</b>	<b>← -----</b>	<b>Estimated</b>	<b>-----</b>	<b>→</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
External Borrowing	675	726	837	1,038	1,278	1,458	1,562
CFR	1,235	1,269	1,422	1,598	1,816	1,985	2,074

9. Total debt is expected to remain below the CFR during the forecast period.

#### **The Council's operational boundary for external debt**

10. Table 4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. It is based on the Council's estimate of the most likely (ie prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the CFR and cash flow requirements and is a key management tool for in-year monitoring.

11. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. Other long-term liabilities comprise finance lease, PFIs and other liabilities that are not borrowing but form part of the Council's debt position.

12. The operational boundary is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary increases over the MTFS period to reflect an increasing underlying need to borrow linked to the Capital Programme. We monitor against the indicator throughout the year.

<b>Table 4 - Operational Boundary</b>						
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Agreed</b>	<b>← -----</b>	<b>Estimated</b>	<b>-----</b>	<b>→</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	966	1,087	1,438	1,698	1,888	1,992
Other long term liabilities	143	136	119	98	80	58
<b>Total</b>	<b>1,109</b>	<b>1,223</b>	<b>1,557</b>	<b>1,796</b>	<b>1,968</b>	<b>2,050</b>
Estimated External Borrowing	716	837	1,038	1,278	1,458	1,562

### **The Council's authorised limit for external debt**

13. Table 5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It is the maximum amount of debt that the Council can legally owe.
14. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code.
15. The Authorised limit provides headroom over and above the operational boundary for unusual cash movements and potential additional borrowing to meet the ambitions of the Council in respect of its investment strategy.
16. As with the operational boundary, the limit separately identifies borrowing from other long term liabilities such as finance leases and PFIs. The authorised limit increases over the MTFS period to reflect an increasing underlying need to borrow linked to the Capital Programme.

<b>Table 5 - Authorised Limit</b>						
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Agreed</b>	<b>← -----</b>	<b>Estimated</b>	<b>-----</b>	<b>-----</b>	<b>→</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	1,553	1,587	1,938	2,198	2,388	2,492
Other long term liabilities	143	136	119	98	80	58
<b>Total</b>	<b>1,696</b>	<b>1,723</b>	<b>2,057</b>	<b>2,296</b>	<b>2,468</b>	<b>2,550</b>
Estimated External Borrowing	716	837	1,038	1,278	1,458	1,562

### **Estimated ratio of financing costs to net revenue stream**

17. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

**Table 6 - Ratio of Financing Costs to Net Revenue Stream**

	2019/20 Projected	2020/21 ← -----	2021/22 Estimated	2022/23 -----	2023/24 -----	2024/25 →
Ratio of Financing Costs to Net Revenue Stream	2.57%	3.18%	3.86%	4.61%	5.31%	6.45%

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

#### Treasury Indicators:

Principal sums invested for periods longer than a year (including shares, which is the only remaining limit for non-specified investment)

Price risk indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£40m	£20m	£10m

Refinancing risk - Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

## Annex 2

**Arlingclose Economic & Interest Rate Forecast****Underlying assumptions:**

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Brexit has been delayed until 31 January 2020. The General Election has removed some uncertainty within the market, however following the Withdrawal Bill, a key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months, with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment. This results in forecast GDP growth of 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.
- Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty continues or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates.
- Inflation is running below target. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).
- The repercussions from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with

changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

#### Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on the progression towards a post-Brexit trade arrangement and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>3-month money market rate</b>														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>1yr money market rate</b>														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.60
<b>5yr gilt yield</b>														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	0.37
Arlingclose Central Case	0.50	0.50	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.56
<b>10yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.00	1.00	0.88
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.45
<b>20yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45
<b>50yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

## Investment &amp; Debt Portfolio Position as at 31 March 2019

	Actual Portfolio £m	Average Rate %
<b>External borrowing:</b>		
Public Works Loan Board	387	4.10
Market	10	5.00
Local Authorities	279	0.8
<b>Total external borrowing</b>	<b>676</b>	
<b>Other long-term liabilities:</b>		
Private Finance Initiative	134	
<b>Total other long-term liabilities</b>	<b>134</b>	
<b>Total gross external debt</b>	<b>810</b>	
<b>Treasury investments:</b>		
Banks & building societies (unsecured)	-	
Government (incl. Local Authorities)	-	
Money Market Funds	31	0.51
<b>Total treasury investments</b>	<b>31</b>	
<b>Net debt</b>	<b>779</b>	



**Glossary of Terms**

**CCLA – Churches, Charities and Local Authorities**

**CFR – Capital Financing Requirement**

**CIPFA – Chartered Institute of Public Finance Accountancy**

**CPI – Consumer Price Index**

**DMO – Debt Management Office**

**DMADF – Debt Management Account Deposit Facility**

**ECB – European Central Bank**

**GDP – Gross Domestic Product**

**MHCLG – Ministry of Housing, Communities and Local Government**

**MiFID - Markets in Financial Instruments Directive**

**MMF – Money Market Fund**

**MPC – Monetary Policy Committee**

**MRP – Minimum Revenue Provision**

**PWLB – Public Works Loan Board**

**TMPs – Treasury Management Practices**

**TMPS – Treasury Management Policy Statement**

**TMSS – Treasury Management Strategy Statement**

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Audit & Governance Committee  
29 January 2020

**Grant Thornton: 2019/20 External Audit Plan**

**Purpose of the report:**

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2019/20 financial statements of the Council and the Surrey Pension Fund

**Recommendations:**

It is recommended that the Committee approves the attached Audit Plan.

**Introduction:**

1. The Audit Plan (Annex 1) provides an overview of the planned scope of the statutory audits of the Council's and Pension Fund accounts for 2019/20. It also outlines the risks identified by Grant Thornton, the Council's external auditors, for the audit of the Council's 2019/20 financial statements and their planned response to these risks.
2. The report also outlines the work the auditor will undertake as part of the assessment of the Council's Value for Money arrangements.

**2019/20 Financial Statements:**

3. The Audit Plan has identified a series of 'significant' risks and 'reasonably possible' risks. These risks have been identified in accordance with auditing standards and are consistent with the risks identified across Grant Thornton's local government clients, rather than being specific to this audit.
4. The 'significant' risks comprise:
  - Two presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition (which has been rebutted) and management override of controls. This covers both the Council and the Pension Fund.
  - Valuation of land and buildings for the Council
  - Valuation of the pension fund liability for the Council

- Valuation of Pension Fund Investments

5. The plan also sets out the levels of materiality for the Council and Pension Fund on which the external auditor will report on misstatements in the accounts. For the Council, this is £25.8m and for the Pension Fund, it is £43.1m. In addition, there will be notes and statements that, although not materially in financial terms are important for stakeholders. These will include;
  - Cash
  - Senior Officers Disclosures
  - Related Party Transactions
  - Subsequent events
  - Audit Fees
6. The statutory deadline for publication of audited local government accounts is 31 July.
7. The Audit Plan also identifies a potential risk to the delivery of the completed audit by the statutory deadline by 31 July 2020. This will be the subject of close review and continuing dialogue with Grant Thornton.

#### **Value for Money Conclusion:**

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

#### **Conclusions:**

9. Following agreement with the Executive Director Resources, cognisant of point 8 above, the Audit Plan is presented to this Committee for discussion and approval.

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

10. There are no direct financial or value for money implications of this report. The audit fee quoted for this work is included within the medium term financial plan.

#### **Equalities and Diversity Implications**

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

#### **Risk Management Implications**

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

#### **Next steps:**

13. The audited financial statements for 2019/20 are due to be reported to this Committee, alongside the Audit Findings Report on 31 July 2020.

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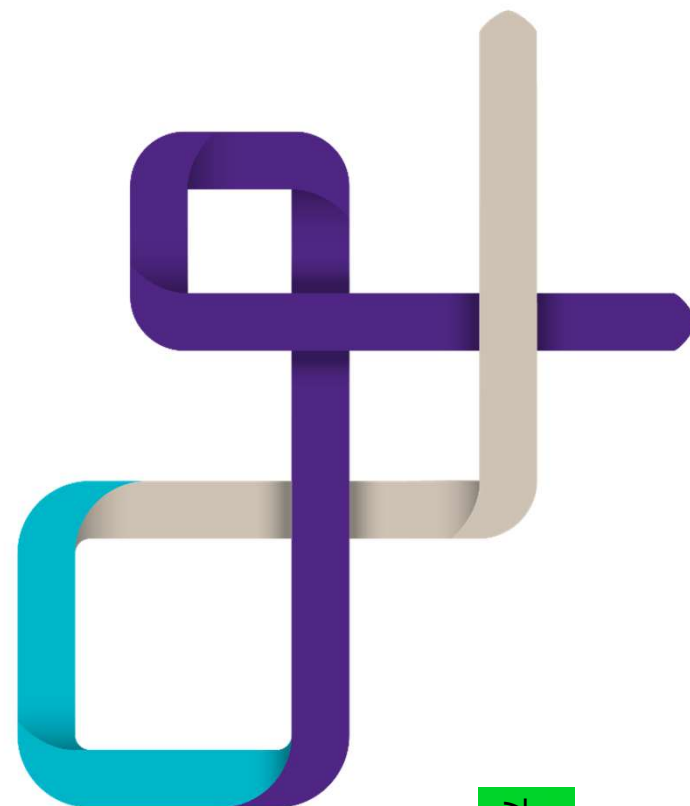


# External Audit Plan

*Year ending 31 March 2020*

Surrey County Council & Surrey Pension Fund  
29 January 2020

Page 43



# Contents



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## Section

1. Introduction & headlines
2. Key matters impacting our audit
3. Group audit scope and risk assessment
4. Significant risks identified
5. Other risks identified
6. Other matters
7. Materiality
8. Value for Money arrangements
9. Audit logistics & team
10. Audit fees
11. Independence & non-audit services

## Page

- 3
- 4
- 5
- 6
- 10
- 11
- 12
- 13
- 14
- 15
- 17

## Appendix

- A. Audit quality – national context

19

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

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Surrey County Council ('the Council') Group and Surrey Pension Fund ('the Fund') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and the Fund. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

### The Group and Council

### The Pension Fund

Page 45

<b>Group Accounts</b>	The Council is required to prepare group financial statements that consolidate the financial information of Halsey Garton Property Ltd, Surrey Choices Ltd and South East Business Services Ltd. We have outlined the scope of our work on the Council's subsidiaries on page 5.	Not applicable to the Fund's accounts.
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> <li>• Management Override of Controls</li> <li>• Valuation of land and buildings</li> <li>• Valuation of net pension fund liability</li> </ul> <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>	<ul style="list-style-type: none"> <li>• Management Override of controls</li> <li>• Valuation of Level 3 investments</li> </ul>
<b>Materiality</b>	We have determined planning materiality to be £26m (PY £30.1m) for the group and £25.8m (PY £30m) for the Council, which equates to 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.5m).	We have determined planning materiality to be £43.1m (PY £40m) for the fund, which equates to 1% of your prior year net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.1m (PY £2m).
<b>Value for Money arrangements</b>	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Children's Services</li> <li>• Financial Resilience</li> <li>• Waste PFI Eco Park</li> </ul> <p>Further details is set out on page 13.</p>	Not applicable to the Pension Fund's accounts.

# Introduction & headlines (continued)

<b>Audit logistics</b>	Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.	
<b>Audit Fees</b>	Our fee for the audit will be £140,415 (PY: £130,915) subject to agreement with management and PSAA, and to the Council meeting our requirements set out on page 15.	Our fee for the audit has yet to be confirmed with management (PY: £20,871), and is subject to the Fund meeting our requirements set out on page 15.
<b>Independence</b>	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.	

# Key matters impacting our audit of the Council and Fund

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. or Surrey County Council, there are significant resource pressures arising from drastically reduced central government funding over recent years, as well as other external pressures such as growing expenditure on demand-led services such as adult social care. Central government funding has marginally increased for 2020/21, but similar challenges remain in ensuring financial resilience without reliance on use of reserves.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain somewhat uncertain. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Local issue – PFI Eco Park

The Council has engaged with a private partner as part of a PFI scheme to deliver a Waste disposal facility to serve residents of Surrey.

The delivery of anticipated outcomes of the scheme is currently significantly delayed and we will consider the impact of this matter as part of our accounts and Value for money audits for 2019-20

### IFRS 16 Leases

The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

### Financial reporting and audit – raising the bar

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 more robust testing as detailed in Appendix 1.

Our national work in 2018/19 has highlighted areas where local government financial reporting, in particular around, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- We will consider progress against recommendations made in previous audits in respect of Financial Sustainability of the Council.

- We identified a significant audit risk relating to valuation on Land & Buildings – see page 7. As part of the work on the significant risk we will consider the valuation of assets related to the PFI Eco Park scheme.
- We identified a significant VFM risk in relation to the PFI Eco Park Scheme – see page 13.
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 Leases from 1 April 2020.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fees, as set out in our Audit Plan (see page 15), will be agreed with the Executive Director of Resources and is subject to PSAA agreement.

# Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Surrey County Council	Yes	Comprehensive	<ul style="list-style-type: none"> <li>See page 6 onwards</li> </ul>	Full scope UK statutory audit performed by Grant Thornton UK LLP
Halsey Garton Property Limited	Yes	Component Audit	<ul style="list-style-type: none"> <li>Valuation of Investment property assets as at 31<sup>st</sup> March 2020.</li> </ul>	Full scope UK statutory audit performed by a component audit team.  Instructions to be issued to component audit team as part of the interim audit.
Surrey Choices Limited	No	Analytical Only	None	Analytical review performed by Grant Thornton UK LLP.
South East Business Services Limited	No	Analytical Only	None	Analytical review performed by Grant Thornton UK LLP.

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement 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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Fraud in revenue recognition</b>	<b>SCC &amp; SPF</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Fund, we have determined that the risk of fraud in revenue recognition can be rebutted, because;</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition</li> <li>• Opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Surrey County Council as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
<b>Management over-ride of controls</b>	<b>SCC &amp; SPF</b>	<p>Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• Evaluate the rationale for any changes in accounting policies or significant unusual transactions</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of pension fund net liability</b>	<b>SCC</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.19 billion PY) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore have identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• Evaluate the instructions issued by managements to their management expert for this estimate and the scope of the actuary's work;</li> <li>• Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund liability</li> <li>• Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> </ul>
<b>Valuation of land and buildings</b>	<b>SCC</b>	<p>The council re-values its land and buildings on an rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.14 billion PY) and the sensitivity of the estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2019 in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts ad the scope of their work</li> <li>• Consider the competence, expertise and objectivity of any management experts used.</li> <li>• Discuss with the valuer the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Test revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of Level 3 investments</b>	<b>SPF</b>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We have identified the valuation of Level 3 investments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls;</li> <li>• Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and</li> <li>• For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known cash movements in the intervening period.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

# Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b>	<b>SCC</b>	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>Assess the completeness of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Council Leasing Briefings</a>.</li> </ul>
<b>Fraud in Expenditure Recognition</b>	<b>SCC &amp; SPF</b>	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets.	<p>Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 7.</p> <p>We will:</p> <ul style="list-style-type: none"> <li>Obtain an understanding of the design effectiveness of controls relating to operating expenditure.</li> <li>Perform testing over post year end transactions to assess completeness of expenditure recognition.</li> <li>Test a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.



# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

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

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

### Surrey County Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £26m (PY £30.1m) for the group and £25.8m (PY £30m) for the Council, which equates to 1.25% of your prior year gross expenditure for the year. We also design our procedures to detect errors in specific accounts which we consider are material by nature. These consist of Cash, Senior Officers Disclosures, Related Party Transactions, Subsequent Events and Audit Fees.

### Surrey Pension Fund

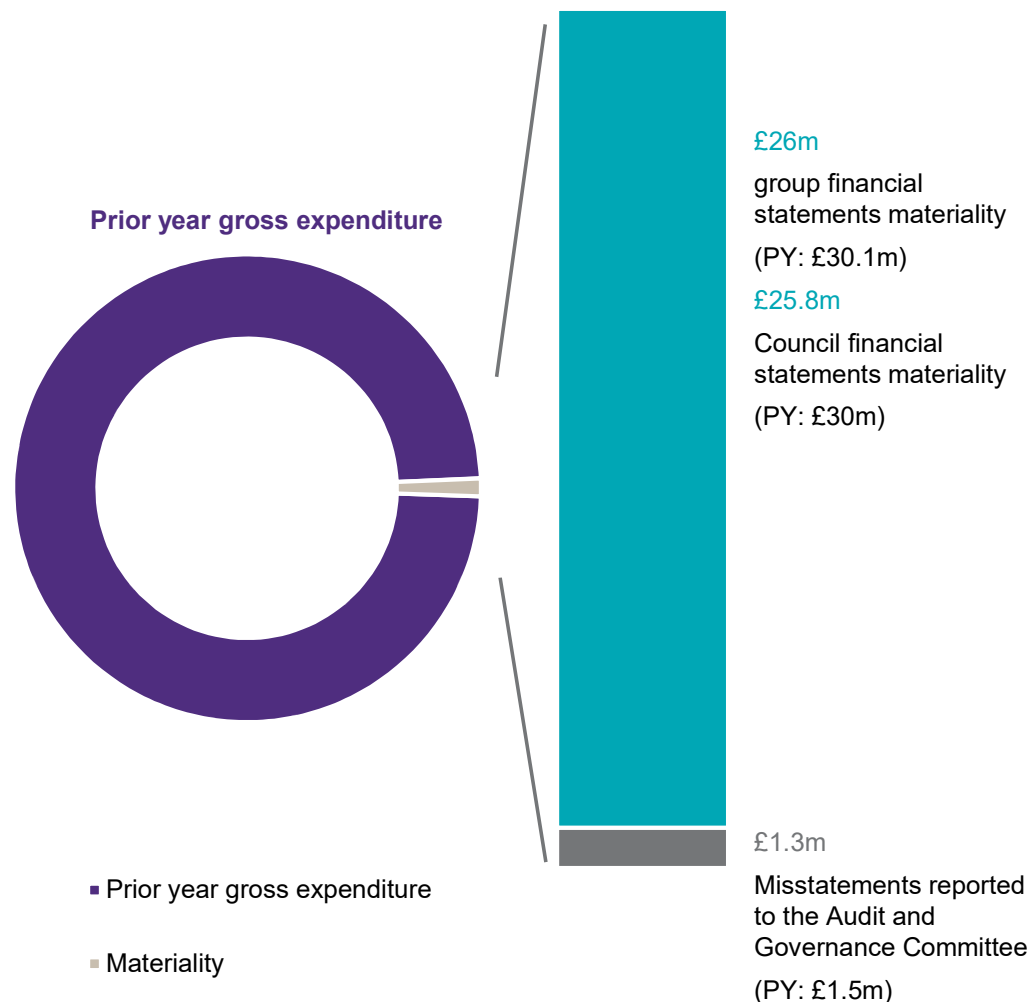
We have determined financial statement materiality based on a proportion of the net assets of the Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £43.1m (PY £40m), which equates to 1% of your prior year net assets. We also design our procedures to detect errors in specific accounts which we consider are material by nature. These consist of cash, senior officers disclosures, related party transactions, subsequent events and audit fees.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.3m (PY £1.5m), this will be set at £2.1m (PY £2m) for the Fund.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, being:

- Informed decision making
- Working with partners & other third parties
- Sustainable resources deployment

## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Children's Services

Ofsted issued a critical report on children's services in 2014/15 and the Council has had a number of follow-up reviews over the past few years.

We have issued qualified except for conclusions in recent years due to Department for Education interventions and reports in relation to Children's Services.

Ofsted will undertake a number of monitoring visits during 2019/20. There is a risk that the Council's provision of Children's Services does not achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019/20 as a result of failure to meet required standards. We will review the outcome of relevant monitoring visits occurring during the financial year and the robustness of the Council's response to risks regarding quality of Children's services.



### Financial Resilience

The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Financial resilience of the Council will depend on its ability to balance its budget without use of reserves.

Revenue budget outturn for 2018/19 was a £21.8m underspend, with a £0.5m contribution to reserves. Prior to this, the Council had balanced its budgets through utilising drawdowns from reserves for the past four years from 2014/15. Forecast outturn for 2019/20 is currently to achieve breakeven without use of reserves, and the Council have also set a balanced budget for 2020/21 without use of reserves.

There is a risk that the Council may fail to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019/20 as a result of financial pressures and non-achievement of Transformation plans. We will review your Medium Term Financial Plan, including the robustness of assumptions, savings plans and revenue generating schemes. We will discuss your plans and outcomes with management, as well as reviewing financial outturn reports and how performance was reported to Councillors.



### Eco Park PFI Scheme

The cost of the capital for the Eco Park PFI scheme was originally estimated at around £250million, for which the Council had obtained HM Treasury PFI credits of approximately £80million.

The Gasification facility was due to be operation by 7 November 2017 and is significantly delayed, as it is not currently operating per the original plan. Management have stated that project delays have been associated with the management of the construction project, not be failure of the gasification technology, however the facility has yet to reach acceptable standards per acceptance tests outlined in the contract with the PFI Operator.

There is a risk that the scheme does not achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019/20 as a result of failure to meet required operating standards.

# Audit logistics & team



## Ciaran McLaughlin, Engagement Lead

Ciaran is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee.

## Tom Beake, Audit Manager

Tom is responsible for overall audit management, quality assurance of audit work and output, and liaison with the audit committee.

## Hal Parke, Audit Incharge

Hal is for management and delivery of audit fieldwork, including both interim and final accounts work.

*The team is consistent across the Council and the Fund.*

## Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the 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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, will be agreed with the Executive Director of Resources and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Council Audit</b>	£142,098	£130,915	£140,415
<b>Pension Fund Audit</b>	£27,105	£27,871*	£TBC**
<b>Audits of subsidiary companies</b>	£41,500	£44,000	£TBC**
<b>Total audit fees (excluding VAT)</b>	<b>£210,703</b>	<b>£174,286</b>	<b>£TBC</b>

\*Includes cost of providing IAS 19 assurances to auditors of admitted bodies to be charged to the Fund under the PSAA framework (£7,000 2017/18). We would estimate a similar level of fees for 2019/20.

\*\*Subject to further discussions with management.

### Assumptions:

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations (SCC Only) – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fees	109,415	Not applicable – this is the PSAA scale fee for the Council (109,415) and is unchanged from the prior year.
Raising the bar	6,500	The Financial Reporting Council (FRC) has highlighted that the quality and extent of work by all audit firms needs to increase across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	4,000	Reflecting this higher profile, and the expectations of stakeholders, we propose to reduce the materiality level for all major audits. For Surrey this means a change in materiality from approximately 1.5% to 1.25%. This will increase the volume and scope of our testing and reporting to those charged with governance, as well as providing additional assurance in respect of the audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	4,000	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth, and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting in this area.
PPE Valuation – work of experts (including estimated cost of an auditor's expert)	9,500	<p>The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Wilks Head and Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.</p> <p>This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.</p>
Group Accounts	4,000	The above factors affecting the nature and extent of our audit work are also relevant to the Group Accounts of Surrey County Council.
Introduction of IFRS 16	3,000	The Council are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	140,415	

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified:

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Certification of Teacher's Pensions return	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fixed fee for the audit of £109,415 and in particular 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 all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pensions return – Surrey Choices Limited	3,500	Self-Interest (because this is a recurring fee)	As above.
<b>Non-audit related:</b>			
CFO Insights subscription	12,500	None	None

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.ie/about/transparency-report/>



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# Appendices

## A. Audit Quality – national context



# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Council of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Council financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

