

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time

Thursday, 26
November 2020
at 10.30 am

Place

Remote

Contact

Joss Butler
joss.butler@surreycc.gov.uk

Chief Executive

Joanna Killian

We're on Twitter:
@SCCdemocracy

Due to the COVID-19 pandemic, this meeting will be taking place remotely.

**A live webcast of the meeting can be viewed here:
<https://surreycc.public-i.tv/core/portal/webcasts>**

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Dr Peter Szanto, Mr Stephen Spence, Mr Stephen Cooksey and Mrs Victoria Young

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETINGS

(Pages 1
- 10)

To agree the minutes from 1 October 2020 and 5 November 2020 as a true record of the meetings.

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 (*20 November 2020*).
2. The deadline for public questions is seven days before the meeting (*19 November 2020*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
11 - 14)

To review the Committee's recommendations tracker.

6 TREASURY MANAGEMENT MID YEAR REPORT 2020/21

(Pages
15 - 24)

This report summarises the council's treasury management activity during the first half of 2020/21, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management

- 7 INTERNAL AUDIT PROGRESS REPORT – QUARTER 2 (01/07/20 – 30/09/20)** (Pages 25 - 44)
- The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2020 and 30 September 2020.
- 8 INTERNAL AUDIT REVISED ANNUAL AUDIT PLAN 2020/21** (Pages 45 - 56)
- The purpose of this report is to present the revised Internal Audit and Corporate Fraud Plan for 2020/21 to the Committee. This Plan has been revised for the 7 month period September 2020 to March 2021 in the wake of the Covid-19 pandemic, which caused the suspension of the original annual Audit Plan (approved by this Committee in April 2020), to enable the Internal Audit service to be deployed in other ways to support the Council during the initial phases of the pandemic.
- A summary of Internal Audit activities from the first quarter of 2020-21 is presented in a separate report to this Committee.
- The Internal Audit Strategy and Charter documents, originally agreed by the Committee in April 2020, remain unchanged and are not therefore resubmitted.
- 9 ORBIS INTERNAL AUDIT & COUNTER FRAUD STAFFING AND RESOURCES** (Pages 57 - 62)
- The purpose of this report is to update the Audit and Governance Committee on the staffing and resources position for the Orbis Internal Audit (Orbis IA) Service, including details of the qualifications held by staff within the service and the training and development arrangements for ensuring we continue to maintain the highest calibre personnel.
- 10 ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE** (Pages 63 - 70)
- This report provides an update on progress on the improvement areas identified in the 2019/20 Annual Governance Statement.
- 11 RISK MANAGEMENT UPDATE** (Pages 71 - 80)
- To provide an update on the risk management project being led by EY to enable the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements.
- 12 2019/20 AUDIT FINDINGS REPORT AND ANNUAL STATEMENT OF ACCOUNTS FOR HENDECA GROUP LTD, SURREY CHOICES LTD AND HALSEY GARTON GROUP LTD** (Pages 81 - 204)
- This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2019/20 financial statements of Hendeca Group Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd.

- 13 REPORT OF THE GOVERNANCE REVIEW TASK GROUP** (Pages 205 - 220)
- The report summarises the work undertaken by, and recommendations of the Governance Review Task Group, which was established by the Audit and Governance Committee to evaluate the effectiveness of the Council's scrutiny function.
- 14 REPORT OF THE MEMBER CODE OF CONDUCT WORKING GROUP** (Pages 221 - 240)
- To consider the recommendations of the Member Code of Conduct Working Group on the appointment of two Independent Persons; the Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct; the timeline for approving a revised Member Code of Conduct; and the response to a letter by the Committee for Standards in Public Life.
- 15 DATE OF NEXT MEETING**
- The next meeting of Audit & Governance Committee will be on 29 January 2021.

Joanna Killian
Chief Executive
Published: 18 November 2020

1.

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 1 October 2020 at Remote.

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

Elected Members:

*= in attendance

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

33/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Stephen Cooksey.

34/19 MINUTES OF THE PREVIOUS MEETING - 28 AUGUST 2020 [Item 2]

The Chairman highlighted an attendance error on front page of minutes. The minutes should state that only Stephen Cooksey was not present.

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

35/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

36/19 QUESTIONS AND PETITIONS [Item 4]

There were none.

37/19 RECOMMENDATIONS TRACKER [Item 5]

Key points raised during the discussion:

1. Members noted that the items within A21/20 and A22/20 were on the meeting's agenda and therefore the actions had been marked as complete.

Action/Further information to note:

None.

RESOLVED:

The Committee noted the report.

38/19 STATEMENT OF ACCOUNTS 2019/20 [Item 6]

Witnesses:

Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The representative from Grant Thornton introduced the item and provided Members with a summary of the detail found within each page of the report. The detail presented could be found from page 17 of the public agenda.
2. In regards to the Children's Service being identified as a signification risk for the Value For Money (VFM) arrangements, Members asked whether the risk was likely to be present for some time due to COVID-19 preventing Ofsted from completing any inspections. The representative confirmed that Ofsted were now beginning to undertake inspections again.
3. Members asked for clarification that, other than the VFM risks and ongoing work related to the EcoPark, the Audit work was going well and as expected. Grant Thornton confirmed that this was the case and that there had been a number of adjustments throughout the Audit however there was nothing that particularly needed Members' attention.
4. Members highlighted the list of outstanding items on page 6 and asked when Grant Thornton expected the list to be complete. Grant Thornton stated that they expected the outstanding items to be completed by the end of the following week.
5. The Committee agreed amended recommendations which are recorded below.

Actions/ further information to be provided:

None.

Resolved:

The Committee:

1. Noted the 2019/20 Statement of Accounts, as attached in Annex A
2. Considered the contents of the draft 2019/20 Audit Findings Report in Annex B;
3. Agreed the officer response to recommendations of the external auditor;
4. Noted the Executive Director of Resources' letter of representation, which is attached in Annex C;
5. Determined that no issues in the Audit Findings Report should be referred to the Cabinet.

39/19 ANNUAL COMPLAINTS PERFORMANCE REPORT [Item 7]**Witnesses:**

Sarah Bogunovic, Customer Relations and Service Improvement Manager

Key points raised during the discussion:

1. The Customer Relations and Service Improvement Manager introduced the item and highlighted that the report provided an overview of the council's complaint handling performance in 2019/20 and that it intended to demonstrate how feedback from customers had been used to improve services. Members noted a summary of the key points of the report which included detail outlined from page 43 of the public agenda.
2. Members thanked officers for providing a clear and detailed report.
3. Members stated that it would be helpful to be provided with a summary document which included the key points which would be more suitable for public consumption. Officers stated that the service was looking into ways to become more transparent and that they would take Members' comments into consideration. It was highlighted that some of the report's detail was available on the public website.
4. The Committee stated that it was clear the council was learning from the complaints received which was positive.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the report.

40/19 INTERNAL AUDIT PROGRESS REPORT – QUARTER 1 (01/04/20 – 30/06/20) [Item 8]

Witnesses:

David John, Audit Manager

Key points raised during the discussion:

1. The Audit Manager introduced the report and provided Members with a brief summary. Members noted that during the pandemic the service had suspended its planned work and focused on supporting the council where it needed it most. Further detail on how the service support the council could be found within section 2 of the report. Section 1 of the report provided a summary of the audits which had been completed from the end of quarter 4. Members further noted that the only audit without reasonable assurance was the Local Economic Partnerships audit.
2. A Member of the Committee stated that they felt the word 'crisis' was not appropriate when discussion the council's reaction to the pandemic as it was an opportunity to learn new things. The Member went on to say that the word 'situation' better reflected the events.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the report.

41/19 RISK MANAGEMENT UPDATE [Item 9]

Stephen Spence left the meeting at 11:30am.

Witnesses:

Anna D'Alessandro, Director - Corporate Finance

Ross Tudor, EY

Emma Price, EY

Mary Buxton, EY

Key points raised during the discussion:

1. Officers introduced the report and noted that its purpose was to introduce the council's strategic risk partner, EY, and provide an overview of their project approach in order to enable the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements.
2. Representatives from EY presented the information found within the slides attached to the main report. The detail could be found from page 95 of the public agenda.
3. Following the presentation, Members further noted that EY's intention was to ensure the council had the tools and knowledge to have effective risk management.
4. Members highlighted the importance of accessing risk within each level of the organisation. Officers agreed with this approach and confirmed that initial interviews would be held with senior levels of the council.
5. Members discussed the highest risks caused by increased working from home. It was noted that a principal risk was around cyber security.
6. The Committee noted a timeline of the programme which could be found on page 101 of the agenda.
7. Officers noted that a further update on the council's risk culture would be provided at the next meeting which would reference the setting of the risk register.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the report.

42/19 EXCLUSION OF THE PUBLIC [Item 10]

The Chairman moved under Section 100(A) of the Local Government Act 1972, that the public be excluded from the meeting for the following item(s) of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 and Part 3 of Schedule 12A of the Act.

43/19 PENSIONS ADMINISTRATION TURNAROUND PROGRAMME [Item 11]**Witnesses:**

Sonia Sharma, Ext Commercial Advisor
Anna D'Alessandro, Director - Corporate Finance

Key points raised during the discussion:

1. The report was introduced by officers. The Committee asked a number of questions which were responded to by the officers present before moving to recommendations.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the report.

44/19 DATE OF NEXT MEETING [Item 12]

The date of the meeting was noted as 16 October 2020.

Meeting ended at: 12.20 pm

Chairman

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 5 November 2020 at Remote.

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

Elected Members:

Mr David Harmer (Chairman)
Mr Keith Witham (Vice-Chairman)
Dr Peter Szanto
Mr Stephen Spence
Mr Stephen Cooksey
Mrs Victoria Young

45/20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

46/20 DECLARATIONS OF INTEREST [Item 2]

There were none.

47/20 QUESTIONS AND PETITIONS [Item 3]

There were none.

48/20 STATEMENT OF ACCOUNTS 2019/20 [Item 4]

Witnesses:

Anna D'Alessandro, Director - Corporate Finance
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The representative from Grant Thornton introduced the item and provided Members with a brief summary. Members noted the following:
 - Grant Thornton were substantially complete however there were a small number of administrative tasks to complete. Once the tasks were completed the accounts would be ready to be signed.
 - An issue with the HSBC bank regarding missing information was in the process of being resolved.
 - In regards to the pension fund, one error was found during testing however it would likely not lead to a material impact on the evaluation of the fund.
 - The Audit Findings Report was almost final. Disclosers had been included on the COVID-19 pandemic in relation to property, land and buildings, private equity and infrastructure assets.

- Work on land and buildings was complete and, other than de-recognition of the gasifier the Eco Park, there were no major changes as a result of the Audit report.
 - The IT audit team identified sufficient deficiencies in the controls operating over the ledger and so the audit process had been amended to address the deficiencies.
 - In regards to the minimum revenue provision outlined on page 204, Grant Thornton confirmed that they were satisfied it was not unlawful.
 - Page 218 – 219 covered ethics and independence and Grant Thornton confirmed that they were independent from the council.
2. Members stated that they felt Grant Thornton had completed a thorough job.
 3. The Committee agreed that they were happy for the Chairman to sign the council's accounts. It was noted that the Chairman would be able to provide an electronic signature.
 4. Members noted that the letter of representation included specific representations around the Eco Park, private equity and priority evaluations.
 5. Members noted that the community fund grant, Your Fund Surrey, was £100 million over the next five years and not £50 million.
 6. The Director - Corporate Finance stated that they were disappointed with the time it had taken for Grant Thornton to complete the work and noted that it was not a reflection on the work of the Finance service. The Director - Corporate Finance thanked the Finance team for their hard work.
 7. Finance and Grant Thornton agreed to hold a wash-up meeting to review the work undertaken and how it should be carried out next year.

Actions/ further information to be provided:

None.

Resolved:

The Committee:

1. Approved the 2019/20 Statement of Accounts, as attached in Annex A of the report, for publication on the council's website and in a limited number of hard copies;
2. Considered amendments since the 1 October Audit and Governance Committee meeting to the contents of the 2019/20 Audit Findings Report in Annex B;
3. Approved the Executive Director of Resources' letter of representation;

49/20 DATE OF NEXT MEETING [Item 5]

The date of the meeting was noted at 26 November 2020.

Meeting ended at: 11.15 am

Chairman



Audit & Governance Committee
26 November 2020

ACTIONS TRACKER

PURPOSE OF REPORT:

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

INTRODUCTION:

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

RECOMMENDATION:

The Committee to note the actions tracker attached as Annex A.

REPORT CONTACT: Joss Butler, Committee Manager
joss.butler@surreycc.gov.uk

Sources/background papers: None

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Audit & Governance Committee Action Tracking

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> <p>August 2020 - Committee Manager to discuss with key officers an appropriate time for the Committee to consider a report on business continuity which takes into account home working.</p>

Audit & Governance Committee Action Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

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	Governance Review Task Group final report to be considered at meeting on 26 November 2020.
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.



Audit & Governance Committee
26 November 2020

TREASURY MANAGEMENT MID YEAR REPORT 2020/21

Purpose of the report:

This report summarises the council's treasury management activity during the first half of 2020/21, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management

Recommendations:

The Audit & Governance Committee is asked to note the content of the Treasury Management Mid Year Report for 2020/21

Introduction:

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (the CIPFA Code) which requires the authority to approve treasury management semi-annual and annual reports
2. The Authority's Treasury Management Strategy Statement for 2020/21 was approved at the County Council meeting on 4 February 2020. The investment and borrowing of cash exposes the Council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

External Context

3. Annex 1 contains commentary on the economic backdrop for 2020/21. The economic position is weakened by the impact of the CV-19 pandemic. The impact on Treasury Management activities is relatively limited as it has resulted in very low interest rates (forecast to continue over the medium-term) which support our strategy of minimising cash balances and meeting our borrowing requirement with short-term debt.

Overview

4. Table 1 shows that the Authority held a net borrowing position of £643m on 31 March 2020 arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment.
5. The Treasury Management Strategy for 2020/21, Approved by Audit & Governance Committee in January 2020, continued the policy of internal borrowing. This maintains borrowing below its underlying level by utilising available cash balances on a temporary basis (i.e. working capital and useable reserves) which are not required in the short to medium term. This approach reduces market and credit risk for the investment portfolio and reduces borrowing costs. The Balance sheet position at 31 March 2020 is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/20 Actual £m
General fund CFR	1252
Less: Other long-term liabilities	(205)
Gross Borrowing Requirement	1047
Less: useable reserves and working capital	(404)
Net Borrowing Requirement	643

6. The Council also manages cash on behalf of Surrey Police and Crime Commissioner, the balance of which was £22.6m as at 30 September 2020. The Council accounts for this as short-term borrowing. The treasury management position as at 30 September 2020 and the change over the six months is summarised in Table 2.

Table 2: Treasury Management Summary

	31/03/20 Balance £m	Movement £m	30/09/20 Balance £m
Long-term borrowing	436	(1)	435
Short-term borrowing	222	21	243
Surrey Police	17	6	23
Total Borrowing	675	26	701
Money Market Funds	(32)	7	(25)
Net Borrowing	643	33	676

Borrowing Strategy

7. At 30 September 2020 the Authority held £701m of loans (an increase of £26m since 31 March 2020). Outstanding loans on 30 September 2020 are summarised in Table 3 below.

Table 3: Borrowing position

	31/03/20 Balance £m	Net change £m	30/09/20 Balance £m	30/09/20 Weighted average rate %	30/09/20 Weighted average maturity (years)
Public Works Loan Board	426	(1)	425	3.84	29 years
Banks (fixed-term)	10	-	10	5.00	33 years
Local Authorities (short-term)	222	21	243	0.58	< 1 year
Surrey Police & Crime Commissioner	17	6	23	0.23	0 days
Total Borrowing	675	26	701		

8. The Authority's main objective when borrowing has been to strike a balance between securing low interest rates and achieving cost certainty over a period for which funds are required. This position provides short term savings with the flexibility to secure longer dated loans as and when the level of funds available for internal borrowing reduces, or financial forecasts indicate that external borrowing rates may increase.
9. In order to best meet these objectives, no new long-term borrowing was undertaken in the first half of 2020/21; internal borrowing was maximised and short-term borrowing was utilised to manage cash flow. This strategy enabled the authority to minimise net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
10. The "cost of carry" analysis performed by the Authority's treasury management advisor, Arlingclose, did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

Investment Activity

11. The Authority holds invested funds, representing income received in advance for expenditure plus balances and reserves held. During the first half of 2020/21 the Authority's average daily level of investments was £67m compared to £42m for the first 6 months of 2019/20.
12. The Council can place cash on deposit on the money market through brokers, directly with counterparties, through the use of call accounts, money market funds or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits have been agreed during the first half of 2020/21. All investments have been made through overnight money market funds.

13. The weighted average return on all investments the council received in the quarter to 30 September 2020 is 0.23%. This compares to the average Bank of England (BoE) base rate of 0.10% for the same period.

Table 4: Investment Benchmarking

	BoE base rate	Weighted return on Investments
2020/21 Quarter 2	0.10%	0.14%
2020/21 Quarter 1	0.10%	0.32%
2019/20 Total	0.72%	0.69%
2018/19 Total	0.67%	0.51%

14. Both the CIPFA Code and the government's Investment Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. In furtherance of these objectives, the Council's strategy of maximising internal borrowing has reduced the cash available for investment and reduced the scope of creating longer-term investment deposits.
15. Continued downward pressure on short-dated cash rates brought net returns on sterling low volatility net asset value money market funds (LV NAV MMFs) close to zero even after some managers have temporarily reduced their fees. At this stage, negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Other Investment Activity

16. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. The Authority holds £134m of investments in directly owned investment property (excluding assets under construction) and £327m in Loans to and shareholdings in its subsidiaries.
17. It is projected that these non-treasury investments will generate £11.6m net investment income for the Authority in 2020/21 after taking account of direct costs and Minimum Revenue Provision (MRP).
18. The impact of CV-19 and wider economic pressures provide a challenging economic backdrop for the investment property portfolio. Total reductions in the fair value of the assets across 2018/19 and 2019/20 amount to £63m. Whilst these represent temporary fluctuations in the value of the assets, the Council will review its policy for Minimum Revenue Provision against investment properties to ensure that it remains prudent. Work is ongoing to mitigate risks to rental income from the portfolio.

Treasury Performance

19. The authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget. Table 5 outlines the forecast for the interest payable and interest receivable budget for the full year of 2020/21. Currently both interest payable and interest receivable are forecast to budget as both depend on the level of capital expenditure for the remainder of the year and the extent to which this is funded through borrowing.

Table 5: Revenue implications of treasury management activity

	Budget £m	Full Year Forecast £m	Variance £m
Interest Payable	18.9	18.9	0.0
Interest Receivable	(0.3)	(0.3)	0.0

Compliance Report

20. All treasury management activities undertaken during the first half of 2020/21 comply fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits, the authorised borrowing limit and operational boundary for external debt, is demonstrated in tables 6 and 7 below.

Table 6: Debt Limits

	01/04/20 to 30/09/20 Maximum £m	30/09/20 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied?
Total			1,223	1,723	
Less: Other long-term liabilities			(136)	(136)	
Underlying Borrowing	753	701	1,087	1,587	✓

21. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not considered a compliance failure. Total debt did not exceed the operational boundary in any period during the first half of 2020/21.

Table 7: Investment Limits

	01/04/20 – 30/09/20 Maximum £m	30/09/20 Actual £m	2020/21 Limit £m	Complied?
UK Central Government	0	0	Unlimited	✓
Money Market Funds	150	25	150	✓
Any group of pooled funds under the same management	0	0	25	✓
Any group of organisations under the same ownership	0	0	20	✓
Any single organisation, except the UK Central Government	0	0	20	✓
Unsecured Investments with Building Societies	0	0	10	✓

Treasury management Indicators

22. The Authority measures and manages its exposures to treasury management risks using the following indicators
23. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 8: Maturity Structure of Borrowing

	30/09/20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	36%	50%	0%	✓
12 months and within 24 months	1%	50%	0%	✓
24 months and within 5 years	0%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	63%	100%	25%	✓

24. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
25. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 9: Principal invested for more than one year

	30/09/20 Actual £m	2020/21 Limit £m	Complied?
Principal invested for more than one year	0	40	✓

Other Implications

Financial and value for money implications

26. The direct financial implications of this report are highlighted in table 5 and form part of the monthly budget monitoring report to Cabinet.

Equalities and Diversity Implications

27. There are no direct implications of this report.

Risk Management Implications

28. The noteworthy risks posed by Treasury management are outlined in the body of the report and are monitored through the Authority's compliance with the approved Prudential and Treasury Management Indicators.

Next steps:

- a. The Treasury Team will continue to monitor the UK and overseas banking sector and will continue to update this Committee as appropriate
- b. In line with the requirements of CIPFA's Code of Practice for Treasury Management, a full-year report for 2020/21 will be brought to the Committee after financial year end.
- c. The Treasury Team will prepare the annual Treasury Management Strategy, which will be presented to this committee in January 2020 for approval.

Report contact: Mark Hak-Sanders (Strategic Finance Business Partner (Corporate))

Contact details: mark.haksanders@surreycc.gov.uk

Sources/background papers:

- Capital Budget, Prudential Indicators and Treasury Management Strategy 2020/21.
- CIPFA Code of Practice for Treasury Management
- CIPFA Prudential Code

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Annex 1

Arlingclose's Outlook for the remainder of 2020/21

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

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AUDIT & GOVERNANCE COMMITTEE
26 November 2020

Internal Audit Progress Report – Quarter 2 (01/07/20 – 30/09/20)

SUMMARY AND PURPOSE:

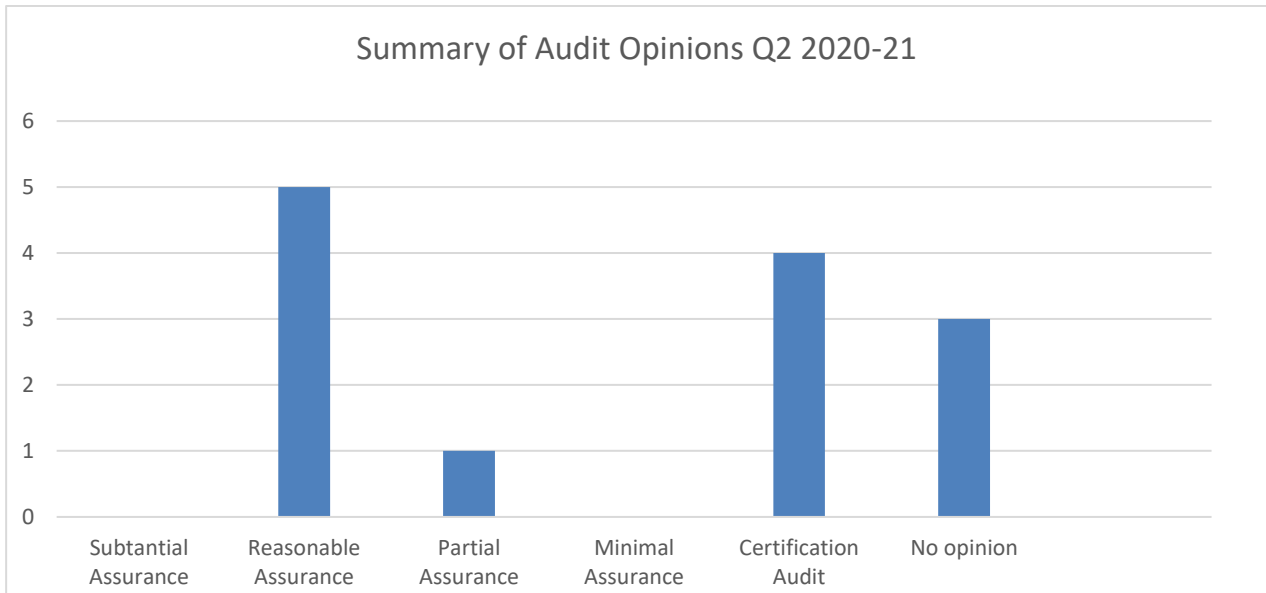
1. The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2020 and 30 September 2020.
2. The original annual plan for Internal Audit was contained within the Internal Audit Strategy and Annual Plan 2020-21, which was approved by this Committee on 22 May 2020. A revised seven-month annual plan, taking into account the suspension of the original plan during the early stages of the COVID-19 pandemic, is on the agenda of the Audit and Governance Committee for 26 November 2020.

RECOMMENDATIONS:

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

BACKGROUND:

4. Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A.
5. Reviews completed in this quarter included a mixture of COVID-19 support activities, planned and unplanned audits, grant certification work, and irregularity work. Overall, of the 6 formal audits finalised during the quarter (excluding grant and irregularities), 5 received 'reasonable assurance', and 1 received 'partial assurance'. Three other audits undertaken were position statements or support activity for which an opinion was not given due to the nature of the work completed.



- 6. Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given, and for higher risk areas receiving 'partial assurance'. There was one follow-up review completed in quarter two of 2020/21 relating to the Safeguarding Team in Schools and Learning. We were able to upgrade the opinion from Minimal Assurance to Reasonable Assurance following our review.
- 7. Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. This has been particularly relevant during the first half of 2020/21 following the impact of the COVID-19 pandemic on the council. This led us to suspend the audit plan for the first two quarters to provide alternative support to the council, details of which is provided in Appendix A. We continue to liaise with departments to identify emergings risks as business-as-usual is restored.
- 8. Appendix A also provides details of counter fraud investigations completed, information on the tracking of high priority actions and progress against our performance targets.

IMPLICATIONS:

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

WHAT HAPPENS NEXT:

- 11. See Recommendations above.

**REPORT AUTHOR: Russell Banks, Orbis Chief Internal Auditor
David John, Audit Manager (Surrey County Council)**

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Sources/background papers: Internal Audit Strategy and Annual Audit Plan 2020/21
Revised seven-month Internal Audit Plan 2020/21

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Internal Audit and Counter Fraud Quarter 2 Progress Report 2020/21

CONTENTS

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

1. Summary of Completed Audits

School Safeguarding Arrangements Follow-Up (2019-20)

- 7
- 1.1 Section 175 of the Education Act 2002, states that: ‘the local education authority shall make arrangements for ensuring that the functions conferred on them in their capacity as a local education authority are exercised with a view to safeguarding and promoting the welfare of children’. The Education Safeguarding Team (EST) fulfils this responsibility by engaging with all the education providers to improve their processes and help them to deliver.
- 1.2 An audit of the EST in 2018-19 found poor systems and controls in place, which led us to give an opinion of Minimal Assurance. This follow-up audit was included in the agreed annual audit plan for 2019/20 and was undertaken to provide assurance that new systems implemented by management had improved the control environment.
- 1.3 The scope of the audit sought to ensure that adequate controls were in place to provide assurance that:
- A suitable system had been implemented to obtain assurance over education providers’ safeguarding arrangements;
 - Effective frameworks had been established to provide support to education providers when safeguarding issues arose, to ensure compliance with relevant legislation; and
 - Current and emerging risks in relation to education providers’ safeguarding arrangements were adequately considered within the Schools and Learning risk register.
- 1.4 We identified that controls had greatly improved within the processes and systems used by the EST. Examples of where improvement had occurred included:
- The launch and use of a new online self-assessment portal called 'Enable', to allow education providers to complete and submit returns on their safeguarding arrangements. At the date of our audit 86% of education providers had signed up to using the portal, a significant improvement on previous years;
 - Appropriate training and support had been provided to members of the EST and education providers following the launch of the online portal; and
 - Progress made in paving the way for sharing information and intelligence to produce a 'schools causing concern register'. This is expected to assist in co-ordinating services across the directorate and with Schools Alliance for Excellence (SAfE) to help the service to develop further an effective risk-based approach in identifying schools requiring additional support and challenge.

- 1.5 Whilst the EST has taken numerous steps to make improvements to date, the audit did note that further work remains to determine how the safeguarding arrangements for children placed in out of county settings should be assessed. The team also need to take necessary measures to require the remaining 14% of education providers to sign up to the online portal. We agreed actions with management in both respects.
- 1.6 Given the improvement in overall control, we gave an uprated opinion of Reasonable Assurance.

Use of Consultants – Policy for the Use of Interim Workers (2019-20)

- 1.7 The council’s workforce includes individuals engaged on a temporary basis to ensure we have the right people, with the right skills, in place to meet business needs. The use of temporary workers can offer numerous benefits, including continued service delivery through cover for vacancies, extra capacity to deliver projects or additional work, and access to specialist expertise not otherwise available.
- 1.8 In support of the council’s transformation journey, in the 18 months preceding the COVID-19 pandemic the use of external interim workers increased significantly. A new “Policy on the Use of Interim Workers” was developed by HR&OD in autumn 2019, aimed at ensuring the application of robust and consistent engagement processes, maximising value for money, and ensuring compliance with HMRC and other relevant legislation.
- 1.9 The purpose of our audit was to provide assurance that controls were in place to meet the following objectives:
- The policy was robust and considered all aspects of the use of consultants or interim workers;
 - The use of consultants or interim workers was supported by appropriate guidance and policies; and
 - All relevant policies and guidance have been effectively communicated to managers.
- 1.10 We concluded that all aspects of the engagement and management of interim workers had been combined within a robust single policy. Aspects of the policy were slightly amended in response to our initial findings as the audit progressed. The policy was also presented to the Council Leadership Team as a draft and amended in response to their feedback.

- 7
- 1.11 Whilst HR&OD had consulted with Procurement prior to finalising the policy, discussions with IT&D were more limited and we identified the potential for the policy, as originally audited, to unintentionally cause a breach of the IT Security Policy relating to the use of personal IT equipment. We acknowledge, however, that this section of the policy has now been re-worded, and we also recognise that certain transformation programmes and the 'Agile' agenda will likely lead to further changes to these IT policies.
- 1.12 The effectiveness of the policy was potentially hampered by a lack of awareness of its existence by managers, due largely to communication of the new policy being limited to a group email to senior managers and the policy being absent on S-net. There is, however, guidance on legislation available on S-net, which was enough to support managers in meeting IR35 requirements.
- 1.13 Overall, we were able to give an opinion of Reasonable Assurance following our audit, with actions agreed with management to address the issues identified.

Cloud Computing (2019/20)

- 1.14 Cloud computing is the technological capability to use IT infrastructures and services that are not installed on a local computer or server. Using the internet, connections are made to external computers or servers that provide appropriate resources. Unmanaged, cloud computing creates significant risks to the security of the council's systems and data.
- 1.15 From a sample of applications and systems retained in the cloud, we reviewed the controls in place to manage the security, access, recovery and deletion of the data. The governance arrangements for managing the use of cloud-based systems were also reviewed.
- 1.16 Our sample of cloud-based systems reviewed was:
- BookWhen (in Children, Families, Lifelong Learning & Culture);
 - Adobe Creative Cloud (in Surrey Fire & Rescue);
 - Career Vision/Serelec (in Children, Families, Lifelong Learning & Culture); and
 - Infogram (in Corporate Resources).
- 1.17 We were able to provide Reasonable Assurance over the controls operating within the area under review because IT&D have in place comprehensive and robust risk assessment processes that take place prior to the implementation of any cloud-based system. Information provided on

the council intranet site specifically stresses the importance of contacting IT&D prior to procuring cloud-based software.

- 1.18 Good practice was demonstrated in our sample in respect of services updating their Privacy Notices in line with the implementation of the cloud-based systems, an adherence to Data Protection legislation, including the General Data Protection Legislation, as part of their terms & conditions, and the existence of suitable arrangements should system outage occur.
- 1.19 However, one area of concern identified that officers can procure cloud-based systems without going through IT&D or Procurement. This is due to a lack of technical controls in place to prevent systems being procured using a purchasing card. For each of the systems selected in our review, IT&D were unaware of its use within the specific service. As such, these systems present a risk to the security of the council's data as they had not been subject to IT&D's usual governance procedures. We also identified some weaknesses in specific systems that once addressed through the agreed actions, will improve the overall control environment.

Patch Management (2019/20)

- 1.20 With ever increasing reliance on computer systems, an effective patch management process is crucial to ensure that critical security weaknesses are promptly closed, and systems remain available and up to date. However, patch management processes need to ensure systems can continue to work effectively with other hardware and software following the application of a patch.
- 1.21 Our audit was undertaken with a focus on patching in relation to desktop and laptop devices via Microsoft System Centre Configuration Manager (SCCM), and a sample of critical systems hosted on-premises (namely SAP and ContrOCC). Infrastructure patching arrangements (including servers and switches) were not included within the scope of the audit as these had been previously reviewed within our Cyber Security audit.
- 1.22 We were able to provide Reasonable Assurance over the controls operating within the area under review because:
- Good practice was demonstrated in relation to patching, as patches were identified and deployed in a timely manner to relevant council devices;
 - Patches and updates were applied with consideration to balancing the benefits of patching against the risk of doing so, and the need for user convenience; and

- Vulnerability scanning takes place, identifying instances where patches are required, as opposed to where software has reached the end of operational life.

1.23 However, some weaknesses in the control environment were identified, including:

- A lack of oversight of patching at a council-wide level, with reports on the council's patching status not being routinely run by management. This could result in applications not being appropriately updated, leaving them vulnerable to security incidents;
- The council's Patch Management Policy was out of date, containing obsolete information and missing key metrics, such as target times for patches to be applied;
- Patches applied to desktop and laptop devices were not tested prior to deployment, meaning systems may become unstable or inaccessible should the patch conflict with other software or other hardware; and
- End-of-life software, for which patches are no longer available, was not routinely documented or monitored, so the council could continue to use unlicensed or insecure software.

1.24 Actions were agreed in relation to two medium and three low risk findings to address these the above issues.

Mobile Device Management (2019/20)

1.25 Mobile devices such as smartphones and tablet computers have the capability to store large amounts of data and so can present a high risk of data leakage and loss. Such devices are often valuable and are therefore also vulnerable to theft and/or misuse.

1.26 Mobile device management (MDM) involves monitoring, managing and securing mobile devices to ensure that the council's information assets are not exposed. MDM is usually implemented through third-party software. The council's MDM solution is provided by VMware AirWatch and covered (at the time of our audit) 4,476 smartphones and 593 tablet computers.

1.27 Our audit considered the council's approach to managing the risks associated with the security and control of the data contained on smartphones and tablets. It did not review the controls in place for managing the contractual payments for calls and data, or the procurement of the devices, nor did it cover the management of laptop devices as these are managed through different processes and procedures.

- 1.28 Overall, we gave an opinion of Reasonable Assurance over the controls associated with the management of mobile devices because:
- Security policies (including rules for appropriate physical and logical handling of mobile devices by the end-user) had been developed;
 - The MDM system enforces policy-based controls to help manage, monitor, and secure mobile device that access and/or store corporate data;
 - The system can lock or wipe managed devices remotely in the event of loss or theft;
 - Security settings configured on the MDM system were consistent with the council's IT security policies (except for password format rules);
 - Devices are automatically placed in a non-compliant status (where functionality is suspended or restricted) if the device fails to apply one or more security policy settings, or the user has not complied with the policies;
 - The ability to install third party applications on managed devices had been restricted and users can only install applications that are on the council's approved list; and
 - A response plan was in place for security incidents such as the loss or theft of mobile devices.
- 1.29 However, we noted that:
- Approximately 70% of devices did not have the latest iOS operating system update, leaving them vulnerable to security incidents;
 - The mobile phone and smart phone policy needs to be reviewed and should include the council's policy on other relevant mobile device security matters such as (but not limited to) bring your own device (BYOD) and installation of third party applications; and
 - Password format rules on the MDM system need amending to bring it in line with the requirements of the council's IT security policy.
- 1.30 Actions were agreed with management to manage all of the findings identified.

LiquidLogic/CareFirst Application Audit (2019/20)

- 1.31 The LiquidLogic Adult Social Care System (LAS) is a key system within the council, used for recording and processing information relating to adult social care client care needs. This includes the management of contacts, referrals and support plans as well as recording safeguarding issues. The information held within LAS is particularly sensitive, including that which falls under the definition of 'special category data'.

- 7
- 1.32 Our audit evaluated the adequacy and effectiveness of the key configuration settings and access control mechanisms to a variety of sensitive processes in LAS, where there were risks associated with inappropriate and unauthorised access and/or processing. Such risks could potentially jeopardise effective care provision, and cause data protection issues and/or inappropriate use of information.
- 1.33 We were only able to provide Partial Assurance over the controls operating within the area under review because:
- New user accounts had been set up without management authorisation, and full access had been granted to some users prior to mandatory training occurring;
 - Once users were set up, permissions were not routinely reviewed to identify any incorrect access or necessary changes;
 - System changes and upgrade approvals were not always documented leading to a risk that the system may not have enough testing prior to go-live status; and
 - A full disaster recovery test had not taken place since the implementation of the system.
- 1.34 Several areas of good practice were identified, including:
- Good communication took place with system users, including providing them with information around downtime, systems upgrades and changes via multiple channels; and
 - Testing confirmed that controls were in place to ensure users were assigned appropriate permissions for their job role. System Administrator access was restricted to those who required it.
- 1.35 Unfortunately we were unable to provide assurance over ASC's Business Continuity arrangements in relation to LAS, as not all relevant documentation was able to be supplied to us ahead of the ASC's prioritisation of ongoing COVID-19 response activities.
- 1.36 Actions to address all of the issues identified during our audit have been agreed with management and these will be subject to a follow up by Internal Audit in due course to confirm appropriate implementation.

Digital Business & Insights Programme - 'As-Is' Process Assurance (2020/21)

- 1.37 The Digital Business & Insights Programme (DB&I) has been established to deliver transformation by either upgrading or replacing the council's existing SAP system. The DB&I Programme looks to

implement a new Enterprise Resource Planning (ERP) system, that will help the council's drive to deliver efficiencies through the transformation agenda.

- 1.38 The current SAP ERP system was implemented in 2004 and will no longer be supported beyond 2025. The overall cost of its replacement is expected to be circa £40m with the new system(s) expected to be implemented in 2021.
- 1.39 To support the programme, we undertook a review of the 'As Is' documentation of the system processes as it currently exists, to ensure that it accurately reflects the current control environment, thereby enabling any future changes to be identified, understood and formally assessed.
- 1.40 No formal report was produced from this review (and therefore no opinion given) as we fed back the findings from our work in real-time to enhance the programme documentation, leading to further improvements.

iPhone Refresh Project (2020/21)

- 1.41 The iPhone Refresh project is in the early stages of developing a detailed implementation plan for the deployment of new devices. IT&D sought advice from Internal Audit on its proposed approach to the collection of old devices.
- 1.42 We were able to provide advice and support to the process and advised on the appropriate mechanisms for formal decision-making. This advice has been included in revised plans and as a result no report was necessary at the conclusion of our work.

Other Audit Activity

Grant Claims

- 1.43 In the second quarter of 2020-21 we completed four grant certification audits on behalf of the council:
- Highways maintenance block funding and pot-hole repair capital grants from the Department for Transport - £23.67m;
 - Urban Links to Landscape semester 4 (EU Interreg grant funding) - €26k (circa £23k);
 - IMAGINE semester 3 (NE Europe grant funding) - €56k (circa £50k); and
 - COVID-19 Bus Service Support Grant - £160k.

2 Covid-19 Response Work

- 2.1 The following paragraphs set out further details of the work that we have undertaken in providing advice and support to services in response to Covid-19. As reported to this Committee in our Quarter 1 Progress Report, as a result of the pandemic a significant proportion of our planned audit work in the first two quarters was paused so that we would not impede service response to the pandemic and, wherever possible, enable us to support this response.

COVID-19 Enquiries Standard Operating Procedure

- 2.2 The Programme Management Office (PMO) coordinated the council's approach to communication and enquiries relating to COVID-19 from people and partners with whom the council works, such as partner organisations, suppliers or providers, councillors, and MPs. General enquiries from members of the public requesting advice or assistance were handled by the Community Helpline and did not form part of this review.
- 2.3 The council had updated its Standard Operating Procedure (SOP), which sets out how information would be shared across the council and how enquiries should be managed and recorded. The PMO had produced a process note that sat alongside the SOP, intended to support officers managing enquiries or generating advice and guidance.
- 2.4 Individual directorates adopted their own approach to dealing with enquiries, partly to mitigate the potential bottleneck of the PMO dealing with all enquiries centrally, but also in recognition of local good practice already in place in some areas. The PMO requested that audit undertake a review of the arrangements in place to manage enquiries in order to:
- Establish and evaluate the processes in place for key, frontline services; and
 - Assess compliance with processes where fully implemented.
- 2.5 Only a few services had a documented process and/or a record of enquiries specific to COVID-19. Only 5 of the 19 services we approached were aware of the corporate SOP and associated process note. Consequently, it was not possible to assess compliance with processes. The guidance was not passed on to officers responding to or maintaining records of COVID-19 enquiries. It is possible that the guidance went unnoticed due the focus being on ensuring continuity of services.
- 2.6 The efforts made by staff across the council to ensure the delivery of services during the COVID-19 pandemic is widely acknowledged. Whilst existing local methods of recording enquiries were

maintained by the services we tested, the inconsistent approach reduced strategic oversight of emerging issues or trends. Further, the council may face criticism or challenge if it is unable to evidence its response to COVID-19 enquiries.

- 2.7 On the basis of this finding we provided advice to the PMO about alternate ways to coordinate a corporate approach of this nature in the future. The PMO can now consider alternative arrangements should a second wave of COVID-19 or similar scenario occur in the future, especially as services may otherwise respond to further guidance in a similar manner.

3. Counter Fraud and Investigation Activities

- 3.1 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

National Fraud Initiative (NFI) Exercise

- 3.2 Internal Audit are currently working with the appropriate departments to ensure that the relevant datasets are uploaded for the next NFI exercise. The data is required to be uploaded by 1 December 2020 and the results from the exercise are due on 31 January 2021.

Fraud Response Plans

- 3.3 The Fraud Response Plans include a data analytics programme for key financial systems. Work on this programme (including creditors, debtors, payroll and pensions data) will commence in quarter three.

Fraud Awareness

- 3.4 Internal Audit has worked with the Blue Badge Team Manager to deliver fraud awareness training, and to develop a Misuse Response Plan to enable the team to respond in the most appropriate way to any allegations of fraud or misuse. In addition, we continue to monitor intelligence community alerts and the latest fraud bulletin is on the council's intranet.

Reactive Counter Fraud Work - Summary of Completed Investigations

Salary Overpayment

- 3.5 Following a routine audit of payroll, Internal Audit was notified that a leavers form for a member of staff who had left the council in November 2018 had not been processed until September 2019. As a result, the member of staff had continued to be paid their monthly wage creating an

overpayment of £14,608. Our investigation found that council had clear procedures around managing leavers, however, we found members of the team were not clear on certain of their responsibilities. This has now been addressed by the service, and the overpayment is in the process of being recovered.

7

Conflict of Interest

- 3.6 Internal Audit investigated an allegation of corruption in Children’s Services. It was alleged that a member of staff had bypassed the competitive tendering process and had appointed their son-in-law to carry out work on behalf of SCC. The investigation found that there was no case to answer and that the relevant declaration and mitigations of risk were in place.

Surrey Fire & Rescue Service

- 3.7 Internal Audit undertook an investigation into an allegation relating to the purchase of drone services and an underwater camera for Surrey Fire & Rescue Service. The allegations included poor value for money, non-delivery of equipment and issues relating to potential conflicts of interest. The investigation found that the items had been purchased in line with Procurement Standing Orders and that there was no case to answer.

4. Action Tracking

- 4.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. All high-priority actions due to be implemented by management by the end of quarter two had at least been partially implemented.
- 4.2 High priority actions relating to the audit of Pension Fund Administration remain a work in progress in terms of their implementation, with revised dates for this agreed with management. Progress over full implementation will continue to be monitored and reported on by Internal Audit.
- 4.3 We are currently engaged in follow-up audits of Health and Safety, and of Surveillance Cameras, both of which have one previous high priority action associated with them. In both cases, the effect of the lockdown and Covid-19 had delayed the full implementation of actions, and once the follow-up audits are completed we will report the outcome to this Committee in due course.

5. Amendments to the Audit Plan

5.1 As referred to previously, a significant proportion of our planned work was paused in response to the pandemic. We have therefore revised and updated the audit plan for the remaining seven months of 2020/21 and will be presenting a separate report to this Committee as part of the November agenda papers.

6. Internal Audit Performance

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

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 22 May 2020 (April's committee was postponed due to COVID)
	Annual Audit Report and Opinion	By end July	G	2019/20 Annual Report and Opinion approved by Committee on 28 August (delayed due to COVID)
	Customer Satisfaction Levels	90% satisfied	N/A	No surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	N/A	During the COVID-19 pandemic, the audit plan has been suspended to allow the organisation to respond to the emerging pandemic.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings June 2020 - Internal self-assessment completed, no major areas of non-compliance with PSIAS identified.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				June 2020 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	92.9% ¹

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

Audit Opinions and Definitions

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

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AUDIT & GOVERNANCE COMMITTEE
26 NOVEMBER 2020

Internal Audit Revised Annual Audit Plan 2020/21

SUMMARY AND PURPOSE:

The purpose of this report is to present the revised Internal Audit and Corporate Fraud Plan for 2020/21 to the Committee. This Plan has been revised for the 7 month period September 2020 to March 2021 in the wake of the Covid-19 pandemic, which caused the suspension of the original annual Audit Plan (approved by this Committee in April 2020), to enable the Internal Audit service to be deployed in other ways to support the Council during the initial phases of the pandemic.

A summary of Internal Audit activities from the first quarter of 2020-21 is presented in a separate report to this Committee.

The Internal Audit Strategy and Charter documents, originally agreed by the Committee in April 2020, remain unchanged and are not therefore resubmitted.

RECOMMENDATION:

Members are asked to consider the contents of this report and Annexes, and to approve the following:

- (i) The Revised Internal Audit and Corporate Fraud Plan (Annex A)

BACKGROUND:

1. The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2015, which require a local authority to “*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes*”.
2. The Accounts and Audit Regulations contain the expectation that Internal Audit will take into account public sector internal audit standards or guidance. The Audit and Governance Committee recognises the mandatory nature of the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (and revised 1 April 2017).

Revision of the Annual Plan

3. The revised Internal Audit and Corporate Fraud Plan for 2020/21, which is a risk-based programme of work, is set out at Annex A. In a similar way to the original Plan for 2020/21, there remains a number of core elements which feature each year such as:
 - (i) Reviewing corporate governance arrangements to inform the Annual Governance Statement
 - (ii) Grant certification
 - (iii) Counter fraud activity, including participation in the National Fraud Initiative (NFI)

In addition to these elements, Internal Audit also carries out testing on an annual basis of many of the Council’s key financial systems. In the revised plan, a risk-based decision has

been taken to defer three key financial systems from the 2020/21 plan of work (General Ledger, Treasury Management, and Pension Fund Investments). The General Ledger audit has received high assurance levels for some years, and is considered to be of low risk, whilst the suspended 2019/20 audits of Treasury Management and Pension Fund Investments have restarted in quarter two and therefore will not need to be repeated later in the year.

4. Once these core elements of the Plan and follow up reviews are accounted for, the remaining audits shown in the revised Plan have been included based on a risk priority which has been assessed following:
 - (i) Consultation and liaison with:
 - a. Executive Directors and other senior officers in across directorates; and
 - b. S151 Officer
 - (ii) Consideration of new and emerging risks arising in the Covid-19 period, including revisions to controls and processes within key systems, and consideration of income and expenditure streams lined to specific Covid-19 funding
 - (iii) Areas of concern emerging from liaison with partners from East Sussex County Council and Brighton and Hove City Council within the overall Orbis Internal Audit partnership,
5. The revised Plan was also presented at a meeting of the CLT on 28/10/2020 and has been agreed by the Section 151 Officer prior to this committee.
6. The Chief Internal Auditor is confident that the revised Internal Audit Plan at Annex A, along with Covid19 response work in the first part of the year, provides sufficient coverage across the Council's activities to enable him to continue to form an overall opinion on the adequacy of the Council's framework of control at the end of the year.

IMPLICATIONS:

7. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. The Annual Internal Audit Plan is designed to focus on key areas of risk and as such should help ensure effective risk management and support the achievement of value for money.

WHAT HAPPENS NEXT:

8. The Orbis Internal Audit Service will continue deliver the revised 2020/21 Internal Audit Plan over the coming months and Internal Audit reports will be produced and distributed in line with the Reporting and Escalation Policy.
9. Quarterly updates on completed audit work and performance of the service will continue be reported to CLT and the Committee throughout the year.

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Revised Internal Audit Annual Plan 2020-21

1. Introduction

- 1.1 Unsurprisingly, as for all Council services, the Coronavirus pandemic has had a significant impact on Internal Audit, including the way in which our staff work, the nature of the work we are able to carry out and the extent to which we are able to deliver our planned audit activities.
- 1.2 As explained in previous update reports to this Committee, the decision was taken at the outset of the pandemic to effectively suspend all 2020/21 planned audit activities in order to avoid interfering with the organisation's response to the pandemic and also to enable us to refocus our efforts on providing advice and support to services over the control environment, especially where significant changes to working practices have been required.
- 1.3 Now that much of this work is in the process of being completed, it has been necessary to revise the original approved audit plan in order to reflect the new risk environment and the reduced period of coverage. The purpose of this report is therefore to present to the Committee the revised plan for 2020/21, covering the period from September 2020 to March 2021. Full details of the revised Internal Audit plan are provided in Section 6 of this report.

2. Process for amending the plan

- 2.1 The update to the plan has followed a similar (but reduced) process as that used to produce the original 2020/21 Internal Audit Plan, including management's assessment of risk and our own risk assessment of the Council's major systems and other auditable areas. It has involved consultation with a range of stakeholders, the re-review of risk registers and external guidance where appropriate, comparison with other authorities' plans across the Orbis partnership, and our knowledge of the impact of Covid 19 on this organisation and the delivery of its services.
- 2.2 Despite the extent of changes that have been made to our audit coverage in 2020/21, it is anticipated that, taking into account the Covid 19 reactive work carried out in the first part of the year (reported to this Committee in October), and delivery of the revised plan set out below, sufficient work will still have been completed to enable the Chief Internal Auditor to provide an overall annual internal audit opinion for the organisation covering 2020/21. Periodic update reports on progress and performance of the service will continue to be provided to management and the Audit and Governance Committee.

3. Deletions from the original approved audit plan

- 3.1 The table below details the proposed deletions/deferrals from this year's Internal Audit Plan, only three of which are key financial systems. These are the audit of the General Ledger, Treasury Management, and Pension Fund Investments, which will be scheduled for quarter 1 of 2021/22. The prioritisation of the other audits in this list will be considered as part of the audit planning process for 2021/22.

Directorate	Audit Title
ASC	Mental Health
ASC	Reablement
ASC	Operating Model
ASC	Hospital Teams
ASC	Social Care Debt (note: now combined with Financial Assessments & Income audit)
CFLC	Libraries
CR	Corporate Governance
CR	Risk Management
CR (Finance)	General Ledger
CR (Finance)	Treasury Management
CR (Finance)	Pension Fund Investments
CR (Finance)	Twelve15
CR (Finance)	Making Tax Digital
CD (IMT)	Departmental IT Teams
CR (IMT)	End User and Senior Stakeholder Behaviour
CR (IMT)	IT&D Major Projects
CR (IMT)	GCSX Replacement
CR (IMT)	Orbis cross-authority working arrangements
ETI	Countryside Contract
ETI	Brightwells Contract
ETI	Highways Reprocurement
PH	Smoking Cessation contract

4. Additions to the Original Audit Plan

4.1 The following audits have been added to the revised Internal Audit Plan for 2020/21. These include a number of reviews that have a direct focus on the Covid 19 pressures faced by the Council, and/or the Council’s response to managing the impact of the pandemic.

4.2 A brief narrative description of each of the audits is contained within Section 6 of this report.

Directorate	Audit Title
ASC	Communities & Prevention
CR	Places For People
CR (Finance)	Capitalization
CR (Finance)	COVID-19 system changes
CR (Finance)	COVID-19 Track & Trace grant
CR (Finance)	COVID-19 additional Home-to-School/College grant funding
CR (Finance)	COVID-19 additional Bus Subsidy grant
CR (IMT)	Information Governance (Home Working)
CR (IMT)	ICT Asset Management during COVID-19
CR (IMT)	Cyber Security during COVID-19
ETI	Parking Review Process

Directorate	Audit Title
TPP	Community Projects Fund

5. Counter Fraud

- 5.1 The Counter Fraud Team has continued to operate during the whole of 2020/21 and will continue throughout the remainder of 2020/21 with contingencies in place to ensure the delivery of both an effective reactive and proactive counter fraud service.
- 5.2 In addition, Internal Audit will promote an anti-fraud and anti-corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss. This includes leading on the National Fraud Initiative data matching exercise on behalf of the Council.

5. Revised Internal Audit Plan 2020/21

- 5.1 The table below details the full list of audits to be delivered as part of the revised 2020/21 Internal Audit Plan.

Review Name	Outline Objective
Adult Social Care	
Placements	A review to review the structure and governance arrangements of the new, central brokerage/placement team.
Communities & Prevention	Part of the focus of this service is increasing wellbeing and independence through community resources and therefore reducing the demand for social care, which is particularly important given the return/increase in demand following lockdown. ASC would like some assurance regarding whether they are making the most of opportunities for a joined-up approach and developing ways to strengthen the offer.
Better Care Fund	This time in the annual plan is to allow for audits to be commissioned over specific aspects of both Better Care Fund activity and the integration of adult social care and health. The audits in this area are determined in year following discussion between Internal Audit and Adult Social Care/Clinical Commissioning Groups in light of emerging issues or areas for assurance work being identified.
Public Health	We are holding a small contingency of time for Public Health Leadership Team to determine an assurance activity with Internal Audit for the last quarter of the financial year.
Children's, Families, Life-Long Learning & Culture	
ContrOCC	ContrOCC supports adults' and children's social care finance teams with the process of managing contracts and budgets, making payments and collecting contributions. This review will

Review Name	Outline Objective
	provide assurance that the system is operating as expected in the post implementation stage.
SEND	To provide assurance around the Council’s developing processes and systems in place for managing SEND service delivery.
EYES (Early Years and Education System)	Liquidlogic has released a product which combines Education Management, Early Years, Social Care and Early Help into one solution. It features a Children’s solution on one database with 3 linked modules; Early Years and Education (EYES), Early Help, and Children’s Social Care, plus an integrated Adults solution. This review will provide advice, support and assurance as this project evolves to ensure that appropriate controls and safeguards are designed within the processes and are implemented on go-live.
Schools Programme	To provide assurance that processes and controls within maintained schools are sufficiently robust to provide the council with understanding and assurance around school financial and non-financial activities. This may involve specific schools-related audit work as well as thematic reviews.
CFLC Data Integrity <i>(completion of 2019-20 carry-forward audit)</i>	To complete the 2019/20 audit paused during lockdown in which we will provide assurance over the arrangements in place to ensure that data management within Children’s Services management and operational systems is robust and data quality is high.
Community Protection Group	
Business Continuity	To provide assurance over the Council’s arrangements for Business Continuity Planning, taking into account lessons learned from the management of the COVID-19 pandemic.
Health & Safety	To follow-up management actions implemented since the original audit, which reported an opinion of Partial Assurance in 2019/20.
Corporate Resources (Finance)	
Procure to Pay	To review the processes and key controls relating to the accounts payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Order to Cash	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Pension Fund Administration	To review the key controls over the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (including contributions from other admitted bodies).
Financial Assessments & Income	To review the key controls in place for both the financial assessment process, including the collation and analysis of information from care recipients to ensure correct calculation of

Review Name	Outline Objective
	contributions occurs in a timely fashion, and a review of the benefit calculation process to ensure correct payments are made. This review also includes a review of social care debt.
Revenue Budgetary Control	A review of the council's budget management arrangements, to include an assessment of the extent to which planned savings are being delivered.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Capitalisation	To review arrangements within capital projects for the accurate capitalization of revenue costs for staff to get correct split of costs. Review of arrangements in place including timesheeting and record keeping
Treasury Management <i>(completion of 2019-20 carry forward audit)</i>	To complete the 2019/20 audit paused during lockdown which will review and assess the adequacy of key controls and procedures across the council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers.
Capital Programme <i>(completion of 2019-20 carry forward audit)</i>	To complete the 2019/20 audit paused during lockdown which will review processes and key financial controls across the council. The review will include capital expenditure monitoring, funding, receipts, borrowing and capital accounting.
Pension Fund Investments <i>(completion of 2019-20 carry forward audit)</i>	To complete the 2019/20 audit paused during lockdown which will review and assess the adequacy of the SCC Pension Fund management and governance arrangements, and examine arrangements for obtaining assurance over the adequacy of the control environment of pension fund investment managers and the custodian.
COVID-19 System Changes	To revisit changes to processes and systems that were made in response to Covid-19 to ascertain whether these remain appropriate and, if so, are adequately controlled.
SFRS FireFighter's Pension Schemes	To follow-up management actions implemented since the original audit, which reported an opinion of Minimal Assurance in 2019/20.
Bus Subsidy Grant	To provide to the DfT the annual certification for the funding of bus subsidy grant monies received in 2019/20.
Local Transport Capital Block Funding	To provide to the DfT the annual certification for the funding of various highways schemes received in 2019/20, including extra monies obtained for additional winter highway repairs.
Local Transport Revenue Block Funding	To provide to the DfT a certification for the funding of Blue Badge New Criteria Implementation specific grant received in 2019/20.
COVID-19 additional Bus Subsidy Grant	To provide to the DfT certification over three additional tranches of funding of bus subsidy grant monies received in 2020/21 as COVID-19 emergency funds.

Review Name	Outline Objective
COVID-19 Track & Trace Grant	To provide assurance in accordance with the Grant Determination for this COVID-19 specific funding stream.
COVID-19 Home-to-School/College Grant	To provide assurance in accordance with the Grant Determination for this COVID-19 specific funding stream.
Troubled Families	Certification of periodic grant claim returns in-year on behalf of Children's Services to enable the release of funds from the DfE, including confirmation of families eligibility for inclusion and evidence that outcome plans have been achieved.
Digi-Tourism Grant (EU)	To provide First Level Controller (FLC) certification for Semesters 4 and 5 of this EU funded project (Digi-Tourism - virtual and augmented reality in tourism).
Urban Links to Landscape Grant (EU)	To provide FLC certification for Semesters 4 and 5 of this EU funded project (UL2L: influencing policy for use of urban fringe land).
IMAGINE Grant (EU)	To provide FLC certification for Semesters 3 and 4 of this EU funded project.
Corporate Resources (IMT)	
Information Governance (Home Working)	The audit will review the controls to ensure information governance arrangements are in place when working remotely, including a review of the controls over printing, confidentiality of data, use of communication and 3rd party 'cloud' tools. We will also ensure there are appropriate arrangements in place to undertake the investigation and reporting of Data Breaches (remotely).
Asset Management during COVID-19	This review will evaluate the adequacy of the controls in place over ICT asset management to support remote working arrangements.
Cyber Security during COVID-19	This review will ensure that cyber security controls that are in place remain appropriate and continue to function as expected in this period.
Children's Safeguarding Data Handling	Social workers/safeguarding teams often use video to record interviews and other interactions with children. The length of interviews can mean that the file sizes are significant and this creates issues with handling these files in a secure and encrypted way. This audit will seek to ensure there is an appropriate Data Protection Impact Assessment in place and this is complied with, appropriate permissions are sought, and that data is encrypted in transit and deleted as appropriate.
ERP Programme Support	Orbis IA will attend programme board and working group meetings to provide independent advice, support and challenge on risk, control, probity and governance issues. In addition to attendance at programme board and working group meetings, we will identify a number of key assurance focus areas to support the programme. At this early stage this is likely to include: • Programme Governance/Risk Management • Business processes

Review Name	Outline Objective
	(both on and off system) • System security • User access, authentication and authorisations • Testing arrangements • Data cleansing and migration • Interfaces and reconciliation • Disaster recovery and business continuity • Training
General Data Protection Regulation (GDPR)	This audit will follow-up the previous GDPR audit (Partial Assurance) to ensure actions have been implemented as agreed and to identify any further work required to comply with the requirements of GDPR.
Corporare Resources (other)	
Contract Management	A review across the council to provide assurance that contract management arrangements are sufficiently robust to ensure that contracts in place are cost effective, provide value for money and achieve the objectives they are designed to deliver, and are managed effectively in line with Procurement Standing Orders and other relevant guidance
Capital Project Management	A review across the council to provide assurance that significant capital projects are sufficiently robust to ensure that contracts in place are cost effective, provide value for money and achieve the objectives they are designed to deliver, and are managed effectively in line with relevant guidance.
Places for People	To examine governance and decision making arrangements in relation to the council's joint venture partnership - Places for People.
PAMS Income	To follow-up management actions implemented since the original audit, which reported an opinion of Partial Assurance in 2019/20.
Surveillance Cameras	To follow-up management actions implemented since the original audit, which reported an opinion of Partial Assurance in 2019/20.
Environment, Transport & Infrastructure	
Pavement Horizon	This review will provide assurance that pavement works are carried out in line with criteria and use data analytics to identify potential distribution patterns requiring further investigation/explanation.
Parking Review Process	To provide assurance that the Parking Review Process is fit for purpose, in particular in relation to timeframes and response to residents.
Transformation, Partnerships & Prosperity	
Transformation Programme	To continue the programme of audit and assurance work that began in late 2017/18 to review aspects of the council's Transformation Programme. This work will provide assurance over key governance arrangements; over the robustness of business case information; the post-transformation control environment; and that effective risk identification and mitigation measures exist.
Community Projects Fund	To provide assurance over the governance arrangements being developed for the new £100m capital projects scheme for community projects, assisting with development of a robust

Review Name	Outline Objective
	governance framework and accessible bid and acceptance processes.
Code of Conduct	To follow-up management actions implemented since the original audit examined processes around Gifts & Hospitality and Declaration of Interests, which reported an opinion of Partial Assurance in 2019/20.
Use of Consultants <i>(completion of 2019-20 carry-forward audit)</i>	To complete the 2019/20 audit paused during lockdown which will provide assurance over revised Council processes and procedures for the retention of external consultants.
Internal Audit Service Management and Delivery	
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Annual Internal Audit Report and Opinion	Creation of the Orbis Internal Audit Annual Report and Opinion for 2020/21.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and Audit Committee covering results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
Orbis IA Developments	Audit and corporate fraud service developments, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support to organisational management meetings, e.g. Orbis Customer Board, Information Governance Board, Orbis Customer Board, Corporate Health and Safety meetings.
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.
System Development and Administration	Development and administration of Audit and Fraud Management systems.

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AUDIT & GOVERNANCE COMMITTEE
26 November 2020

Orbis Internal Audit & Counter Fraud Staffing and Resources

SUMMARY AND PURPOSE:

The purpose of this report is to update the Audit and Governance Committee on the staffing and resources position for the Orbis Internal Audit (Orbis IA) Service, including details of the qualifications held by staff within the service and the training and development arrangements for ensuring we continue to maintain the highest calibre personnel.

RECOMMENDATIONS:

Members are asked to:

- (i) Note the report and in particular the latest position with regard to resourcing the Internal Audit service, including the professional qualifications held by our staff.

BACKGROUND:

1. Orbis IA was officially formed on 1 April 2018 out of the existing internal audit teams from East Sussex County Council (ESCC), Surrey County Council (SCC) and Brighton & Hove City Council (BHCC), along with a small number of staff from Horsham District Council (HDC). These HDC staff joined via TUPE transfer following a new agreement for Orbis to provide internal audit services to HDC under an initial 5-year contract. Other existing external income generating clients for Orbis IA include East Sussex Fire Authority, Elmbridge Borough Council and the South Downs National Park Authority.

INTRODUCTION:

2. At the time of establishing Orbis IA, a new organisational structure was implemented with the intention of continuing to provide high quality, localised services to our partner and client organisations, whilst also developing specialist teams in the areas of ICT Audit and Counter Fraud, who provide these services across all partners and clients. Maintaining such specialisms within smaller individual teams prior to integration had become unsustainable, resulting in the increased costs associated with buying in services from external providers.
3. This report updates the Committee on progress made since recent recruitment exercises have come to a conclusion, which in turn updates the structure and qualifications base of the service.

IMPLICATIONS:

4. Financial
Equalities
Risk management and value for money
5. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report.

WHAT HAPPENS NEXT:

6. The Chief Internal Auditor and Audit Manager will continue to update members on the staffing resource available to Orbis Internal Audit should a material change in arrangements occur.

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Orbis Internal Audit and Counter Fraud Staffing and Resources

1. Introduction

- 1.1 Orbis IA was officially formed on 1 April 2018 out of the existing internal audit teams from Surrey County Council (SCC), East Sussex County Council (ESCC), and Brighton & Hove City Council (BHCC), along with a small number of staff from Horsham District Council (HDC). These HDC staff joined via TUPE transfer following a new agreement for Orbis to provide internal audit services to HDC under an initial 5-year contract. Other existing external income generating clients for Orbis IA include Elmbridge Borough Council, East Sussex Fire Authority, and the South Downs National Park Authority.
- 1.2 At the time of establishing Orbis IA, a new organisational structure was implemented with the intention of continuing to provide high quality, localised services to our partner and client organisations, whilst also developing specialist teams in the areas of ICT Audit and Counter Fraud, who provide these services across all partners and clients. Maintaining such specialisms within smaller individual teams prior to integration had become unsustainable, resulting in the increased costs associated with buying in services from external providers. A copy of the current Orbis IA structure chart is attached to this report as Appendix A, a structure that, at the time it went live, delivered significant financial savings to the Orbis partner authorities.
- 1.3 Given that ultimately all staff, regardless of where they are positioned within the structure, are willing and able to operate across all partners and clients, we are able to maximise the substantial knowledge, skills and experience available throughout the service for the benefit of all clients. This, along with the creation of specialist teams and the increased resilience offered by a much larger team, represents one of the fundamental benefits of Orbis IA.
- 1.4 Some ongoing challenges have, however, been faced historically by the service associated with recruiting suitable skilled and experienced staff, especially at the Senior/Principal Auditor levels. For this reason, we have in the past supplemented our own internal resources with external contractors, often resulting in higher costs. In order to help address this issue, we have recently successfully appointed five new staff at entry level, with a focus on training and development to effectively 'grow our own'. Where necessary, this includes support for appropriate professional development, including utilising apprenticeship schemes.
- 1.5 The table below summarises the professional qualifications currently held by staff across Orbis IA. As can be seen, there is a clear mix of different qualifications enabling our clients the ability to draw upon the wide range of knowledge, skills and experience available.

Qualification	No. of Staff
Chartered Institute of Internal Auditors (CMIIA)	6
Chartered Institute of Public Finance and Accountancy (CIPFA)	5
Chartered Institute of Management Accounts (CIMA)	1
Institute of Internal Auditors – Practitioner/Certified (PIIA/CIA)	3

Association of Accounting Technicians (AAT)	5
Certificate in Internal Audit and Business Risk (IACert)	2
Accredited Counter Fraud Specialist (ACFS)	3
Institute of Revenues, Rating and Valuation (IRRV)	2
Staff in Professional Training	
Institute of Internal Auditors – Practitioner/Certified (PIIA/CIA)	3
Other	
Not Yet Qualified or In Training	4
Total	34

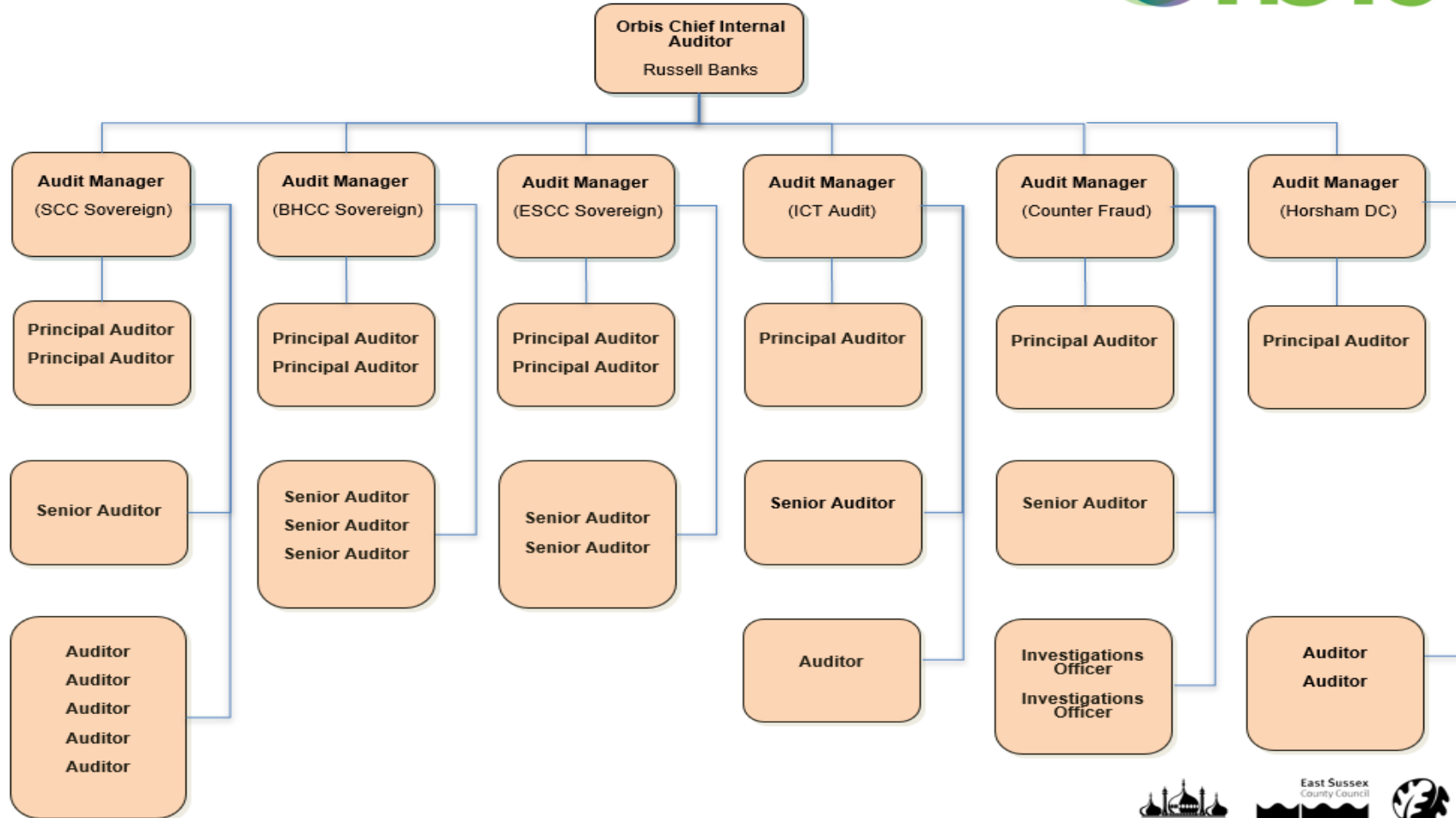
NOTE: In many cases, staff in the team hold more than one qualification or are studying for additional qualifications over and above those currently held.

1.6 Finally, two previously vacant Principal Auditor posts have been filled in the summer of 2020 with both new staff (one at Surrey County Council, the other at East Sussex County Council) taking post in mid-October. Consequently, we have no further vacancies with the service, something we have not achieved for some considerable time.

2. Conclusion and recommendation

2.1 The Audit and Governance Committee is recommended to note the updated resourcing position for Orbis IA and the range and extent of qualifications held by staff or currently being studied for.

Orbis Internal Audit Integrated Structure





Audit & Governance Committee
26 November 2020

Annual Governance Statement half year update

Purpose of the report:

This report provides an update on progress on the improvement areas identified in the 2019/20 Annual Governance Statement.

Recommendations

It is recommended that the committee confirm whether it is satisfied with the progress made so far.

Half year update

- 1 The 2019/20 Annual Governance Statement identified a number of governance issues which were detailed in a 2020/21 improvement plan. Updates on many different areas of governance are continuously reported to senior management and members through various groups, boards and committees. Annex A provides a summary of progress to date on the improvement plan.

Implications

- 2 **Financial**
There are no direct financial implications arising from this report. Continued improvements in governance will support the delivery of the council's objectives.
- 3 **Equalities**
There are no direct equalities implications of this report.
- 4 **Risk management**
Strong governance arrangements support the council in the effective delivery of services and achievement of objectives.

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Sources/background papers: 2019/20 Annual Governance Statement, Code of Corporate Governance, CIPFA/SOLACE framework *Delivering Good Governance in Local Government*.

2020/21 Improvement Plan

Issue identified during 2019/20	Action being taken during 2020/21	Update as at October 2020
<p>Covid-19 Recovery Programme</p>	<p>A 'Recovery, Reset and Reform' programme of work is being initiated to ensure:</p> <ul style="list-style-type: none"> • The council is able to function effectively and fulfil its duty of care to residents and staff throughout the pandemic; • There is a smooth transition from the LRF structures to existing partnership arrangements and the county council's own governance processes to allow the major incident to close when appropriate; • The impacts of Covid-19 are accurately reflected in the current budget and activities adjusted in year to maintain financial sustainability (<i>with a Cabinet/Council decision on this in September if required</i>); and • The council can continue to be ambitious in its vision for the county and has clear strategies in place that still deliver on the overarching aims of Vision 2030 with plans adjusted to mitigate the long-term impact of Covid-19 and take advantage of any opportunities presented to accelerate transformation. 	<p>An internal Operational Group consisting of senior managers from across the organisation, including all category 1 services, and co-chaired by the Executive Director for Corporate Resilience and the Director for Public Health continues to coordinate Covid 19-related activity, identify and manage risk, and ensure effective information flows.</p> <p>The council has also maintained a continuous focus on staff wellbeing through the pandemic, providing a range of resources, advice and guidance to support both individuals and teams. Regular staff communications have clearly set out the council's position on key issues, including remote working, and a comprehensive risk assessment process has enabled the council to identify and put in place mitigations appropriate for individual staff members, including those most at risk.</p> <p>The council's Emergency Management Team is working with partner organisations to ensure on-going response activity is sustainably resourced and overseen by appropriate governance structures, including the council's Corporate Resilience Group.</p> <p>Smooth transition is further supported by the Recovery Transition Plan produced and overseen by the LRF Recovery Coordination Group, which is supporting partner organisations to define the 'new normal' and to transfer on-going activity to appropriate partner forums.</p> <p>The impact of Covid-19 on the Council's finances has been reported to regularly as part of the Cabinet's month end financial reports. On 21 July 2020 (as part of the Month 2 Financial report), Cabinet approved an in-year budget reset to</p>

Issue identified during 2019/20	Action being taken during 2020/21	Update as at October 2020
		<p>incorporate Covid-19 funding for costs and lost income into Directorate budgets. Over the summer, a full review of the council's activities, including the current transformation programme, was undertaken supported by cross-party task group drawn from the select committee chairmen and vice chairmen group (including the chairman of the Audit and Governance Committee). This was reported and approved by the Cabinet on 29 September 2020.</p> <p>The Cabinet has agreed four emerging priority objectives (Tackling inequality and ensuring no one is left behind; Driving inclusive growth; Creating a greener future; and Enabling resilient and connected communities) to form a new focus for the council and the basis of a refreshed Organisation Strategy. The refreshed organisation strategy will be presented to the Cabinet at the end of October and if agreed, recommended to County Council for approval at its meeting on 8 December 2020.</p>
<p>Agile workforce Changing our culture and the way we organise ourselves as a council, as well as the practical aspect such as technology.</p>	<p>Rethinking the way we work through a culture of empowerment where staff determine where, when and how they work to be most effective and deliver the best performance and outcomes, underpinned by our working principles.</p>	<p>Established the Agile Organisation Programme, which brings together HROD, Land and Property, IT&D and programme change to drive the adoption of Agile working. Starting with moving teams out of County Hall, all teams are being engaged with to build their own plans for adopting Agile. Support is being given by the change programme and HROD.</p>
<p>Children's Services Greater focus on the impact of the Children's Improvement Programme.</p>	<p>Carrying out significant quality assurance activity including monthly case audits, themed auditing and focused mock inspections.</p>	<p>The Family Resilience improvement programme has continued in 2020 throughout the Covid-19 pandemic and while some resources have shifted to support other parts of the service, improving frontline practice remains a priority.</p>

Issue identified during 2019/20	Action being taken during 2020/21	Update as at October 2020
	<p>Alongside the ongoing business as usual activities, the Children’s directorate priorities for 2020/21 focus on:</p> <ul style="list-style-type: none"> • Response to the Coronavirus Pandemic • Starting well: first 1000 days • Children’s Services Improvement • SEND and additional needs transformation • Emotional Health and Wellbeing • Libraries and Cultural Services transformation • Enabling our people, utilising our technology and embedding equality and diversity for all. 	<p>There are several transformation work-streams that are continuing along with additional projects starting in the latter part of 2020/early2021:</p> <ul style="list-style-type: none"> • Embedding the Family Safeguarding Model and continuing training in the Motivational Interviewing approach • No Wrong Door – A short term residential model to support some of the most vulnerable teenagers • Mockingbird Family Model – Helping to provide more stable homes with foster families • Getting to Good – Improving outcomes and addressing inspection recommendations • Integrating the Learners Single Point of Access with the Children’s Single Point of Access • Workforce – Improving recruitment and retention • Universal Youth Work – Developing our Youth Centres and support for young people.
<p>Performance Reporting and Risk Management</p> <p>Embedding the performance management and risk management frameworks.</p>	<p>Analysing and understanding the impact of COVID-19 across Surrey, revising the 2030 vision, organisational strategy and performance reporting framework and risk impacts.</p> <p>Engaging a risk management partner to support the implementation of the baseline review recommendations and embed a risk management culture into the everyday workings of the council.</p>	<p>EY have been appointed to develop the council’s approach to risk management and strengthen the risk culture. The project team meets regularly to review progress and updates are provided to Audit and Governance Committee.</p> <p>Risk reporting will form a key part of the performance management framework and is a key enabler for the council to support the delivery of the objectives set out in the organisation strategy and 2030 vision.</p>

Issue identified during 2019/20	Action being taken during 2020/21	Update as at October 2020
<p>Land & Assets</p> <p>Improving the effectiveness, efficiency and commercialisation of the Land and Property function to ensure it supports service delivery to residents and organisational objectives for the council.</p>	<p>Implementing the Improvement Plan including:</p> <p>Business Performance: Updating Risk, Audit, Governance and business reporting including accurate forecasting.</p> <p>Systems, Data & Processes: Embedding quality and compliance processes and new systems to provide efficient data, workflows and management information.</p> <p>People, Communication and Culture: Strengthening skills, capabilities and investment in people and ensuring clear accountabilities through a partnership approach to delivery aligned to the corporate strategy and business needs.</p>	<p>Programme Manager started on 1 September 2020 and implementation has begun.</p> <p>Business Performance: assessing current processes and looking for improvement areas.</p> <p>Systems: Engaged with the implementation of the Integrated Workplace Management System and adding a user experience lens to deployment.</p> <p>People: Mapping current structures and engagements.</p>
<p>Governance</p> <p>Improvements to the council's governance including the Member Code of Conduct and Governance Panel.</p>	<p>The Audit and Governance committee will consider and recommend to Council the adoption of a new Code of Conduct for councillors appropriate for the council further to the publication of the new model code by the Local Government Association.</p> <p>The officer Governance Panel will complete a review and action plan for all strands of council governance in adherence with the CIPFA code of good governance to fully inform the improvement of governance systems across the council and contribute to the Annual Governance Statement assurance in 2021.</p>	<p>Member task and finish group established over summer and will recommend a new Code of Conduct for councillors to Audit and Governance Committee when issued by the Local Government Association. The Standards complaints procedure is being revised by the task group and two new independent persons are being recruited.</p> <p>The Governance Panel meets quarterly and a review of governance ongoing of all strands of governance to complete first cycle by February 2021. AGS action tracker has been established for reporting.</p>
<p>Digital Business and Insights Programme to enable</p>	<p>This programme is nearing completion of a procurement process to replace the existing SAP corporate system, which manages the council's back</p>	<p>Unit4 have been appointed as the implementation partner for the programme, supported by Embridge Consulting.</p>

Issue identified during 2019/20	Action being taken during 2020/21	Update as at October 2020
<p>transformative process improvements</p> <p>To facilitate the transformation of our core processes through the replacement of the existing SAP corporate system</p>	<p>office finance, procurement, HR & payroll processes. This transformation programme is now moving towards its implementation phase, which will enable the council to achieve its ambitions to transform our core processes in Finance, HR and Procurement. This will improve reporting with more insightful information to facilitate management decision making and fully enable a flexible and mobile workforce.</p>	<p>The DB&I Programme Board have approved the Project Initiation Document and the plan for the Design stage. The project team, supported by subject matter experts from both the functional areas (Finance, Procurement, HR and Payroll) and the Directorates will be taking part in familiarisation training sessions and Design workshops over the next few months.</p>
<p>Pensions Administration Improvement Programme</p>	<p>This function has long suffered from many issues across people, processes and systems. Despite much effort from many over the last few years, it has not been able to progress to the level required to deliver the best practice service we aspire to. As a result, the leadership, governance and ways of working of this function have been redesigned and a new, streamlined programme will be set in train for 2020/21 for delivery over the next 12-24 months.</p>	<p>A pension administration “Turnaround Board” has been established to oversee the dissolution of the Orbis pension partnership, along with reversion to sovereign authorities including a review of the fundamentals for delivering pensions administration. The progress of this board is reported to the Chairmen of the Local Pension Board and the Pension Fund Committee on a monthly basis.</p> <p>The pension administration team have made progress on improving areas highlighted by internal audit as having control weaknesses, including making significant headway in clearing down the backlog of legacy cases that had been built up over a considerable period of time.</p>

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**Audit & Governance Committee
26 November 2020**

Risk management update

Purpose of the report:

To provide an update on the risk management project being led by EY to enable the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements.

Recommendations

It is recommended that the committee consider the contents of the report and confirm they are satisfied with the progress made so far.

Risk management update

1. The attached slides (Annex A) provide an overview of the activities undertaken so far, progress on the key areas and next steps.

Implications

Financial and value for money implications

2. Risk management arrangements, including effective controls and timely action, supports the achievement of the council's objectives and enables value for money.

Equalities and Diversity Implications

3. There are no direct equalities implications in this report.

Risk Management Implications

4. Embedded risk management arrangements leads to improved governance and effective decision-making.

Report contact: Cath Edwards, Risk Manager, Finance

Contact details: cath.edwards@surreycc.gov.uk

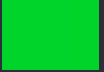
Developing the Council's approach to risk management and strengthening its risk culture

Project update

Audit and Governance Committee

26 November 2020

Introduction



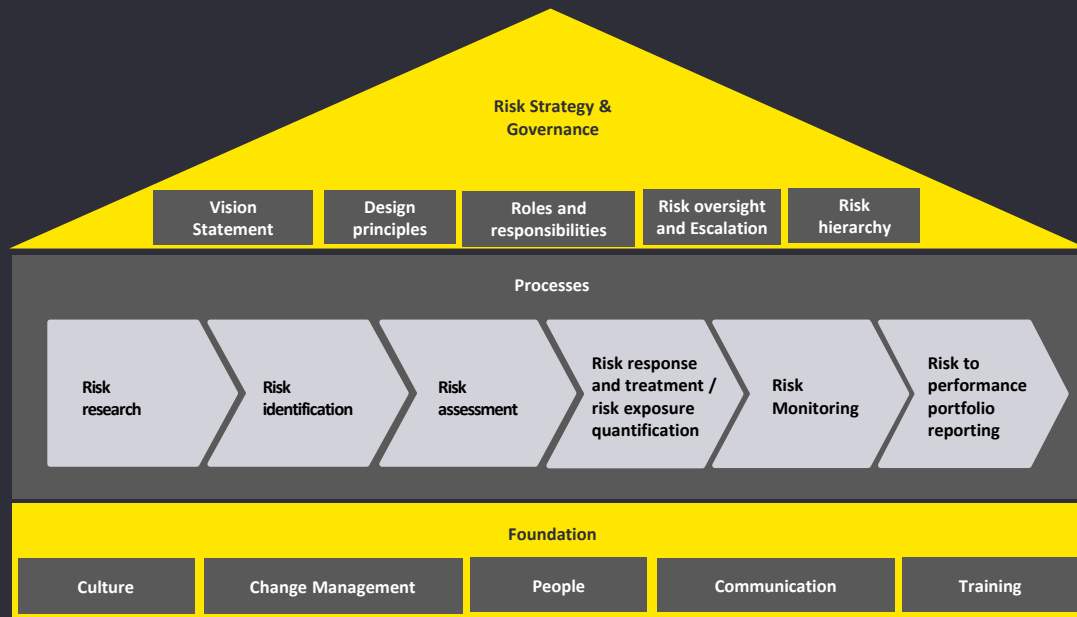
The purpose of this document is to update the AGC on the progress of the risk management project. It is intended to support a discussion at the Audit and Governance Committee meeting on 26th November 2020.

A reminder of our objectives

To develop and embed a robust risk management framework, underpinned by a strong risk management culture, that provides tangible and recognised value to SCC in supporting performance; the achievement of objectives; and ultimately the outcomes of the people of Surrey.

A reminder of our guiding principles and priorities

- Embedding simple and intuitive processes which will be sustainable, and will maximise outcomes relative to inputs.
- Building on existing good practice and leveraging already existing frameworks and mechanisms for risk management activities.
- Recognising the importance of culture.
- Ensuring the role of risk management in supporting strategic objectives is understood, and closer alignment to performance management.
- Including early and ongoing engagement with stakeholders from across SCC, ensuring risk management is relevant.
- Drawing on best practice and risk management standards (ISO31000, Orange Book, Corporate Governance Code).



Critical activities completed

1-2-1 interviews



18 individual stakeholder meetings (including all of CLT) were held to understand perceptions of risk and expectations of risk management, with the specific objectives of:

- Developing a shared vision of the future state of risk management in SCC.
- Understanding the behaviours that support and prohibit effective risk management across SCC
- Identifying the most significant risks recognised by individuals

SIP sub-group strategic risk identification workshop



A workshop was held with nominated individuals from the Strategic Integrated Planning Group*, to develop an initial list of strategic risks through:

- Reviewing and prioritising risk areas
- Describing and categorising individual risks (including causes / consequences)
- Assessing the impact and likelihood of identified risks

*Chaired by the Executive Director for Strategy and Commissioning to ensure the budget, key strategies and transformation are integrated to form a coherent framework.

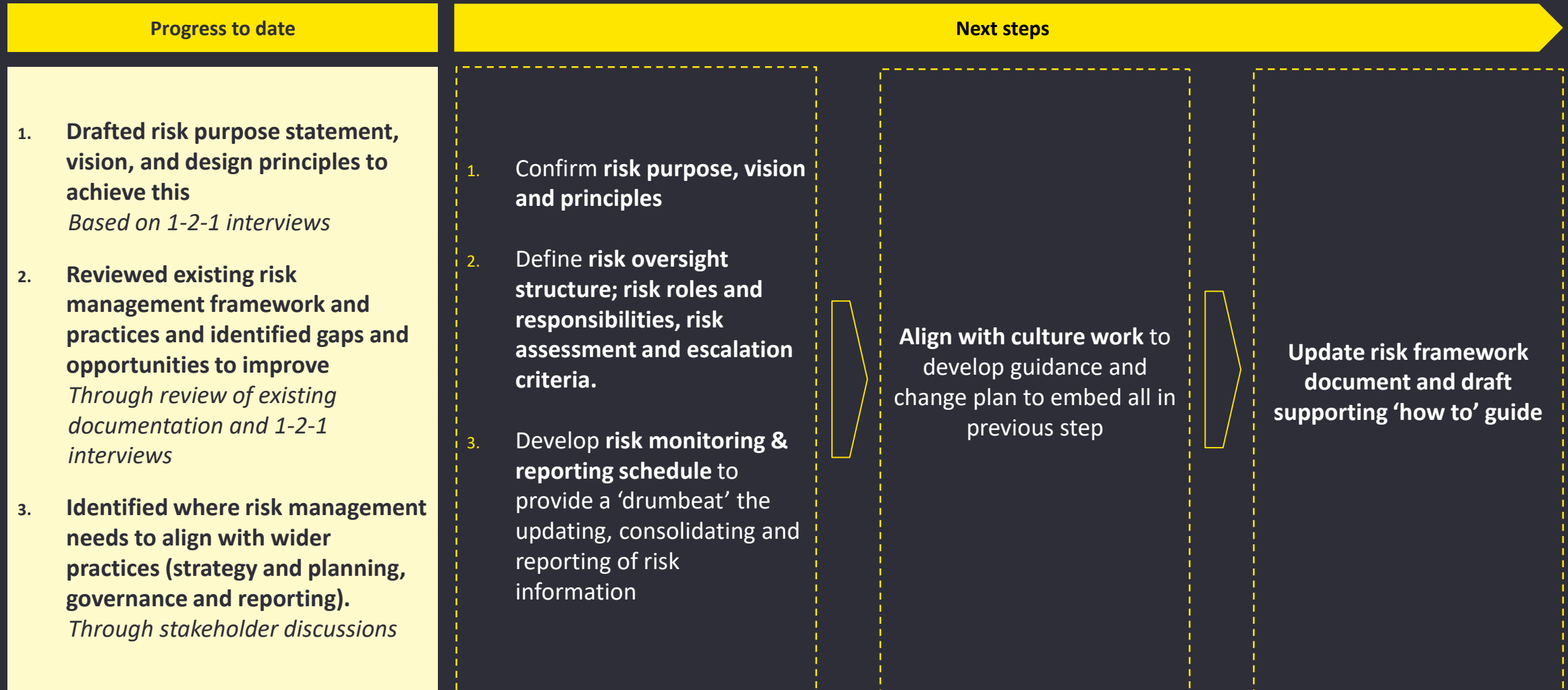
CLT risk session



A session was held with the CLT to:

- Review the strategic risks as identified by the SIP sub-group to:
 - Agree whether these are strategic risks
 - Identify any gaps in this list
- Agree the next steps and timescale to complete the strategic risk register
- Confirm CLT engagement required

Developing the Risk Management Strategy & Governance



Risk management processes & the development of the Strategic risk register

As we develop the Strategic risk register we will work with all directorates and use a consistent approach in how we understand identify, describe, assess and record risks. We will establish and embed the principles that will be the foundations of a sustained approach to risk management going forward.

Progress to date

1. **Drafted list of risk areas**
Based on 1-2-1 interviews, existing risk register, and common / current sector risks
2. **Prioritised risk areas and identified, described, categorised and assessed strategic risks**
Through SIP sub-group workshop
3. **Strategic risks reviewed by Exec and gaps in the strategic landscape identified**
During CLT session

Next steps

Hold risk sessions with each Directorate Leadership Team to determine:

1. How are these risks understood and managed within each Directorate?
2. What are the controls currently in place to manage these risks?
3. What factors (indicators) tell us a risk is changing?

Update Directorate risk registers

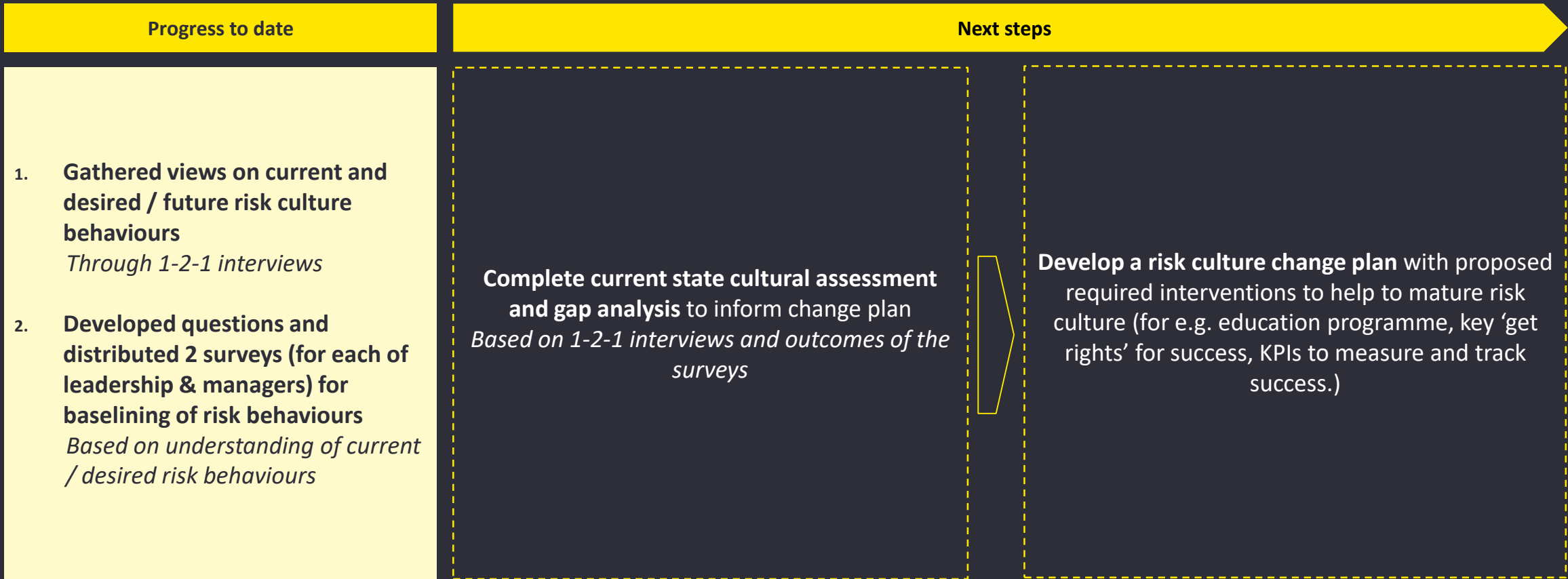
Consolidation of risk information from Directorate risk sessions

Hold CLT risk workshop to consider:

1. How do we assess the current level of these risks?
2. Are we comfortable with the level of these risks?
3. How can we respond to these risks and what actions should we take?
4. What indicators can we monitor to understand how risks are changing?
5. What scenarios might we expect multiple risks to occur?

Update Strategic risk register

Our foundation – developing a strong risk culture



Ask of the Audit and Governance Committee

Today

1. Note progress of project.
2. Provide feedback and ask questions .

For next AGC meeting (29th January 2021):

1. Review the proposed future risk management framework and timeframe.
2. Discuss and agree what this will mean for the AGC in terms of :
 - ▶ The risk information you should expect to see
 - ▶ Your role in the oversight of risks across Surrey CC
 - ▶ Your role in maintaining an effectiveness of the risk management process across Surrey.
3. Review the timeframes for implementation and understand how risk management and risk information will can be expected to develop over time.

And longer term...

- ✓ Track the implementation of the risk management framework.
- ✓ Allow the time on your agenda to undertake your role and responsibilities with regards to risk management; and provide feedback on the information you receive to ensure that enables you to fulfil your role.
- ✓ Continue to champion the importance of risk management across SCC.

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Audit & Governance Committee
26 November 2020

2019/20 Audit Findings Report and Annual Statement of Accounts for Hendeca Group Ltd, Surrey Choices Ltd and Halsey Garton Group Ltd

Purpose of the report:

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2019/20 financial statements of Hendeca Group Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd.

Recommendations:

It is recommended that the Audit and Governance Committee consider the contents of the 2019/20 Audit Findings Reports for Hendeca Group Ltd (formerly S. E. Business Services Ltd), Surrey Choices Ltd, and Halsey Garton Property Ltd. The Annual Accounts for each company are shared as background information.

Introduction:

1. The Council has three wholly owned Local Authority Trading Companies:
 - Hendeca Group Ltd (formerly S.E.Business Services Ltd)
 - Surrey Choices Ltd
 - Halsey Garton Property Ltd.

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

3. The SHIP and SIB, both safeguard the Council's interest and takes decisions in matters that require the approval of the Council as owner or a shareholder of a company. Shareholder control is exercised over all companies owned by the Council, and in relation to any shares held whether the purpose is trading, service provision, or investment. Decisions in relation to the day to day operation of

companies are taken by the directors of each company.

4. The SIB provides an Annual Report which is considered by Cabinet and by full Council.
5. The audit findings report and financial statements for the council's wholly owned companies is shared with the Audit & Governance Committee for information. The following documents are included:
 - Annex A – Hendeca Group Ltd financial statements 2019/20
 - Annex B – Hacker Young audit findings report for Hendeca Group Ltd
 - Annex C – Surrey Choices Ltd financial statements 2019/20
 - Annex D – Hacker Young audit findings report for Surrey Choices Ltd
 - Annex E – Halsey Garton Property Ltd financial statements 2019/20
 - Annex F - Hacker Young audit findings report for Halsey Garton Property Ltd

Audit Findings:

6. The Directors of the companies approved the 2019/20 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2020.
7. The Audit Findings reports summarise the findings of the 2019/20 audit undertaken by Hacker Young. The reports set out a summary of the work carried out and the conclusions reached.
8. At the beginning of an audit an Audit Plan was shared with the company directors, which identified areas of significant risk and other risks of material misstatement. The Audit Findings Report summarises the work completed in relation to these areas.

Conclusions:

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

Financial and value for money implications

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

Equalities and Diversity Implications

There are no direct equalities implications of this report.

Risk Management Implications

There are no direct risk management implications of this report.

Contact Officer:

Paul Forrester, Strategic Finance Business Partner – Commercial (Corporate Finance)

Hendeca Group Limited
(formerly S.E. Business Services Limited)

Company Registration Number:
08578463
(England and Wales)

Report of the Directors and
Audited Financial Statements

Period of accounts
Start date: 01 April 2019
End date: 31 March 2020

**Hendeca Group Limited
Contents of the Financial Statements
for the Year Ended 31 March 2020**

	Page
Company Information	3
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Independent Auditor's Report	6 to 8
Profit and Loss Account	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 to 17

**Hendeca Group Limited
Company Information
for the Year Ended 31 March 2020**

Directors:	S Ruddy J Harris
Registered office:	County Hall Penrhyn Road Kingston upon Thames Surrey KT1 2DN
Company Registration Number:	08578463 (England and Wales)
Ultimate Parent:	Surrey County Council County Hall Penrhyn Road Kingston upon Thames Surrey KT1 2DN
Auditor:	UHY Hacker Young LLP 4 Thomas More Square London E1W 1YW
Bankers:	HSBC 60 Queen Victoria Street London EC4N 4TR

**Hendeca Group Limited
Report of the Directors
for the Year Ended 31 March 2020**

The directors present their report with the financial statements of the company for the year ended 31 March 2020.

Principal activities

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

Directors

The directors shown below have held office during the whole of the year from 01 April 2019 to 31 March 2020.

S Ruddy
J Harris

Change of name

On the 19 February 2020 the company changed its name from S.E. Business Services Limited to Hendeca Group Limited.

COVID-19

The COVID-19 outbreak has developed rapidly in 2020 and has resulted in unprecedented actions being taken by Governments across the globe, which have had a significant adverse impact on large swathes of the economy.

At this stage, the impact on our business and results is limited. Due to the nature of our business and customer base there has been limited impact on our current trading environment, and we do not foresee any long-term adverse impacts.

We will continue to follow the Government's and relevant sector specific bodies policies and advice to ensure we always protect the safety and health of our employees and customers.

We also refer to note 2.1 on the company as a going concern.

Company policy on the employment of disabled persons

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

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Provision of information to auditor

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

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


Auditor

In accordance with the company's articles, a resolution proposing that UHY Hacker Young be reappointed as auditor of the company will be put at a General Meeting.

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

This report was approved by the board of directors on 27 July 2020

And Signed On Behalf Of The Board By: S Ruddy



Status: Director

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HENDECA GROUP LTD**

Opinion

We have audited the financial statements of Hendeca Group Limited ("the Company") for the year ended 31 March 2020 which comprise the Profit and Loss Statement, the Balance Sheet, the Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice)

In our opinion:

- the financial statements give a true and fair view of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

**INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF HENDECA GROUP LTD****Other information**

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

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

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

**INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF HENDECA GROUP LTD****Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Jessica Moorghen (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young LLP

Chartered Accountants
Statutory Auditor

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London
E1W 1YW

Date: 27 July 2020

Hendeca Group Limited
Profit and Loss Account
for the year ended 31 March 2020

	Note	2020	2019
		£	£
Turnover		2,224,905	2,438,262
Cost of sales	5	<u>(1,563,332)</u>	<u>(1,599,411)</u>
Gross profit		661,573	838,851
Administrative expenses		<u>(194,226)</u>	<u>(155,827)</u>
Operating profit		467,347	683,024
Interest payable and receivable	8	<u>(1,251)</u>	<u>(3,267)</u>
Profit on ordinary activities before taxation	7	466,096	679,757
Tax on Profit on ordinary activities	9	<u>(88,559)</u>	<u>(126,970)</u>
Profit for the financial year		<u>377,537</u>	<u>552,787</u>

Hendeca Group Limited
Balance Sheet
as at 31 March 2020

	Note	2020		2019	
		£	£	£	£
Current Assets					
Debtors	10	237,698		349,795	
Cash at bank and in hand		<u>703,110</u>		<u>971,473</u>	
			940,808		1,321,268
Creditors: amounts falling due within one year	11	(275,879)		(533,876)	
			(275,879)		(533,876)
Net current assets			<u>664,929</u>		<u>787,392</u>
Net assets			<u><u>664,929</u></u>		<u><u>787,392</u></u>
Capital and Reserves					
Called up equity and share capital	12		1		1
Non-distributable reserve	3.3		220,717		220,717
Profit and loss account			444,211		566,674
			<u>664,929</u>		<u>787,392</u>

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

The financial statements were approved by the Board of Directors on 27 July 2020

Signed on behalf of the board of directors by S Ruddy



Company Registration no: 08578463

Hendeca Group Limited
Statement of Changes in Equity
for the year ended 31 March 2020

	Share Capital	Non distributable reserve	Profit and loss Account	Total
	£	£	£	£
At 31 March 2017	1	159,962	443,570	603,533
Profit and total comprehensive income for the year	-	-	471,071	471,071
Issue of shares	-	-	-	-
Dividends paid in respect of the year 16/17	-	-	(440,000)	(440,000)
Dividends agreed for the year 17/18	-	-	(400,000)	(400,000)
Group Tax Relief	-	60,755	(60,755)	-
At 31 March 2018	1	220,717	13,886	234,604
Profit and total comprehensive income for the year	-	-	552,787	552,787
Issue of shares	-	-	-	-
Dividends agreed for the year 18/19	-	-	-	-
At 31 March 2019	1	220,717	566,674	787,392
Profit and total comprehensive income for the year	-	-	377,537	377,537
Issue of shares	-	-	-	-
Dividends paid in respect of the year 19/20	-	-	(500,000)	(500,000)
At 31 March 2020	1	220,717	444,211	664,929

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2020

1. Company Information

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

2. Basis of preparation

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

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

The Financial Statements are presented in Sterling (£).

2.1 Going Concern

Hendeca Group Limited has considerable financial resources together with long term contracts with a number of customers and suppliers across different industries. Therefore, the directors believe that Hendeca Group Limited is well placed to manage its business risks successfully.

These contracts have not been impacted by the change in circumstances resulting from the Government's response to the COVID-19 outbreak, and the directors do not expect this to change in the future. The directors will continue to monitor and respond accordingly to the ever-changing implications of COVID-19 and the Government's response to the situation, but currently do not see this having a long-term adverse impact on the company.

After reviewing Hendeca Group Limited forecast and projections, the directors have a reasonable expectation that Hendeca Group Limited has adequate resources to continue in operational existence for the foreseeable future.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

3. Accounting Policies

3.1 Turnover

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

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2020

3.2 Recognition of income and expenditure

Revenue (income) from the sale of goods and provision of services is recognised when Hendeca Group Limited transfers the goods or completes the delivery of a service.

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

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

3.3 Debtors

Short-term debtors are measured at transaction price, less any impairment.

3.4 Creditors

Creditors are measured at transaction price, less any impairment.

3.5 Cash and cash equivalents

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

3.6 Non Distributable Reserves

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

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

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

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2020

4. Taxation

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

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

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

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

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

5. Cost of Sales and Staff Costs

	2020	2019
	£	£
Cost of Sales before staff costs	1,183,108	1,284,677
Wages and Salaries	354,055	292,220
Social Security Costs	21,148	18,927
Pension Costs	5,021	3,587
	<u>1,563,332</u>	<u>1,599,411</u>

Hendeca Group has three full time employees, all of whom are enrolled in a National Employment Savings Trust (NEST) pension scheme. Contributions payable are recognised in the profit and loss account when due. All other employees are engaged on a part-time basis.

6. Average number of Employees

During 19/20 the average number of employees was 53 (3 full time employees and 50 who receive a monthly retainer). In 18/19 this was 50 (3 full time employees and 47 who receive a monthly retainer).

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2020

7. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

Auditor's Remuneration and Tax fees:

	2020	2019
	£	£
Audit Fees	12,500	12,000
Tax Compliance services	1,800	1,815
	<u>14,300</u>	<u>13,815</u>

8. Interest Payable and Receivable

	2020	2019
	£	£
Interest payable	996	3,121
Bank charges	255	146
	<u>1,251</u>	<u>3,267</u>

9. Taxation

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

	2020	2019
	£	£
UK Corporation Tax	88,559	126,970
Tax on profit on ordinary activities	88,559	126,970
Profit on ordinary activities before taxation	<u>466,096</u>	<u>679,757</u>
Rate of tax for year	19%	19%
Profit on ordinary activities before taxation multiplied by the rate of tax for year	88,558	129,154
Expenses not deductible to tax purposes	-	-
Adjust closing deferred tax to average rate of 19%	7	4
Adjust opening deferred tax to average rate of 19%	(5)	-
Adjustments in respect of prior years	44	(2,188)
Deferred tax not recognised	(44)	-
Other adjustments	(1)	-
Current tax charge	<u>88,559</u>	<u>126,970</u>

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2020

10. Debtors

	2020	2019
	£	£
Trade Debtors	237,683	317,139
Prepayments and accrued income	15	32,656
	<u>237,698</u>	<u>349,795</u>

11. Creditors

	2020	2019
	£	£
Trade creditors	184,874	208,689
Other creditors	91,005	325,187
	<u>275,879</u>	<u>533,876</u>

All amounts are payable within one year.

12. Called Up Share Capital

Allotted and called up:

Class	Number of Shares	Nominal Value per Share (£)	Total
Ordinary	1	1	1

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

13. Related Party Disclosures

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

14. Ultimate controlling party

The ultimate controlling party of Hendeca Group Limited is Surrey County Council, which owns the entire issued share capital.

Hendeca Group Limited
Notes to the Financial Statements
for the year ended 31 March 2020

15. Subsequent events

The global economy was affected by the COVID-19 pandemic and the related market volatility has brought certain operational and financial impacts to our entity performance due to the partial or complete lockdown. However this has not led to any significant post balance sheet events in these financial statements. The potential near-term impact of the developments on the group is discussed in the Strategic Report and note 2.1.

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Hendeca Group Limited

Report to the Board

Year ended 31 March 2020

Helping you prosper

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The matters raised in this Report to the Board are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for any other purpose.

Introduction

Hendeca Group Ltd (“the Company” or “HG”)

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of the Company for the year ended 31 March 2020.

This report provides an update to the significant matters raised in our Audit Service Plan, which was provided to the Company on 1 May 2020.

This report provides an update to the matters discussed at that meeting and the other matters which arose during the course of our audit.

Audit scope

Our terms of engagement are set out in our engagement letter. That letter sets out our audit responsibilities and their limitations and the responsibilities of the directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage

and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Communication with those charged with governance

International Standard on Audit 260 “Communication of audit matters with those charged with governance” (“ISA 260”) is an auditing standard designed to ensure that there is effective two-way communication between auditors and those charged with governance of the Company. In the context of ISA 260 “those charged with governance” means the Board of Directors of the Company.

Matters relating to the planning, conduct and results of the audit are communicated to those charged with governance of the Company on a

sufficiently prompt basis to enable the recipients to take appropriate action.

During the audit, regular communications were made by us to Paul Forrester, Joseph Stockwell and Cristina Robinson. These communications were generally made informally, either by telephone or email.

After the completion of the audit, important matters requiring the attention of Directors are communicated by way of this report.

Audit independence

In accordance with the requirements of ISA 260 and the Ethical Standard issued by the Financial Reporting Council, we confirm the matters set out below.

We discussed the specific threat to you posed with our involvement in the services provided and how we mitigate such threats in our Audit Service Plan. We have not identified any further threats during the course of the audit.

We confirm that: We are auditors of Hendeca Group Ltd;

The audit is subject (if selected as part of a sample) to our internal independent quality control procedures, and reviews by the ICAEW as part of their inspections.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact:

Jessica Moorghen

t: +44 (0) 20 7216 4670

e: j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Company and, accordingly is addressed to the Board.

It is not intended to include every matter that came to our attention. For these reasons, we

believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

UHY Hacker Young
July 2020

Acknowledgement

We wish to thank Paul Forrester, Joseph Stockwell and Cristina Robinson for their helpfulness and co-operation during the course of the audit process.

Audit status

Audit structure

We have carried out the audit of the Company. The audit working papers have been reviewed by the audit manager and audit partner. Any significant issues arising during our audit were discussed with Paul Forrester and have been included in this report if deemed necessary.

The audit was planned and conducted to concentrate on the high risk areas in the financial

statements. The key audit issues arising in these areas are explained further on page 5 below.

The accounting systems were documented and the controls over those systems evaluated. Using these assessments we designed and conducted detailed tests of transactions and balances.

Current position

The audit of the Company is substantially complete. All queries arising during the audit were dealt with as the audit progressed. There were no limitations on the scope of our audit work completed to date.

There are, however, at the time of writing some outstanding unresolved audit matters which are

set out below and which may or may not have an impact on our audit opinion on the Company financial statements.

We expect to be in a position to sign our audit report as soon as practicable after clearing the outstanding matters.

Outstanding audit matters:

Signed Letter of Representation from the directors;

Signed Directors' Report;

Signed Statement of Financial Position and;

Completion of our subsequent events review to the date of our audit report.

Identified key risk areas and our responses

We have identified the following key risk areas as part of our audit planning processes. During our audit we focused on these areas, in addition to our other normal audit procedures, and we set out below our comments and the results of our testing.

Management override of controls (all companies)

Explanation of risk

Auditing standards require that the risk of management override of controls should be considered to be a significant risk for all audit engagements.

Audit response to risk

We will review a sample of transactions in the year for unusual items outside the ordinary course of

business and also test journals raised to ensure that such entries are relevant to the Company's business.

Outcome

Audit testing of a sample of journals posted in the year and other significant transactions did not indicate any instances of management override of controls occurring in the accounts.

Revenue recognition

Explanation of risk

Auditing standards require that revenue recognition is considered a significant risk unless it may be appropriately rebutted. There is a risk that revenue is incomplete and that it has not been accurately recorded or calculated.

Audit response to risk

A sample of revenue items were chosen and agreed to supporting documentation. A sample of the recognised income was also chosen either side of the year-end to ensure revenue recognition was accurate.

Any manual journals relating to work in progress or deferred income were recalculated on a sample

basis and agreed to the supporting documentation to gain assurance over the accuracy of the calculation.

Outcome

There were no errors noted in the testing for both completeness and accuracy of revenue. We performed substantive testing on all material revenue streams. This is to determine whether the accounting policy had been correctly applied and performed specific cut-off testing to ensure that revenue has been accounted for in the correct period. All items sampled were satisfactory tested with no issues noted.

Debtor recoverability

Explanation of risk

There is a risk that debtor balances are not recoverable and therefore are overstated.

Audit response to risk

A sample of debtors was agreed to post-year end receipts to ensure amounts are recoverable. Any doubts raised over recoverability were queried with Joe Stockwell and documentation obtained to verify recoverability / dates.

Outcome

Our sample items tested for recoverability overall proved adequately received post-year end leading to the conclusion that debtors are materially correct.

Going Concern

Explanation of risk

As the company is profit making, with healthy cash reserves at the year-end, going concern would not usually be considered a risk to an entity in this financial position.

However, due to the economic uncertainty surrounding COVID-19, we have highlighted it as a risk to consider in detail as this may have a significant impact on the company's ability to continue as a going concern and pay their debts as they fall due.

Audit response to risk

We will discuss in detail with the directors, the steps being taken to ensure that the company will continue as a going concern. We will request and review the cash flow forecasts of the company for the next 12 months and assess the reasonableness of the assumptions made. We will also perform a sensitivity analysis on the cash flow forecasts.

Outcome

We assessed the company's ability to continue their operations until the end of June 2021. We have reviewed the cash flow/business forecasts which covers the years ending 2021 and 2022 and considered its reasonableness.

The key assumptions made in the cash flow forecast were reviewed and deemed reasonable.

We also performed a sensitivity analysis on the key assumptions to ensure that in a reasonable worst case scenario (being that the Heathrow contract ends) the company would continue to have sufficient cash to continue in their operations for the 12 months from signing the audit report.

It was concluded that Management's plans are considered feasible and there is no reason to doubt the going concern assumption.

Opening Balances

Explanation of risk

This is a first year audit, under ISA 510- Initial Engagements; there is limited assurance over the accuracy of the brought forward balances.

Audit response to risk

We will vouch opening balances to prior year signed accounts and ensure all audit journals have been posted correctly. We will complete detailed work programmes tailored to gaining assurance on the accuracy of the brought forward balances. We will review records, as well as accounting and control procedures in the preceding period. We will also consult with the previous auditor and

review (with their permission) their working papers and relevant management letters.

Outcome

There were no issues identified during our testing of the brought forward balances.

Internal controls

Our audit is tailored to our assessment of the risk of material misstatement, taking into account the inherent risk of error or fraud and our assessment of the effectiveness of controls in eliminating or reducing those risks.

We cannot examine every activity and procedure within the Company, nor can we substitute for management responsibility to maintain adequate controls at all levels of business.

Accounting policies

We have reviewed the accounting policies adopted by the Company in the preparation of its financial statements and consider that they are appropriate and suitable for the Company's particular circumstances.

As required by FRS 102, the Board of Directors should formally review the Company's accounting

Significant subsequent events

In March 2020, many countries across the global entered into widespread lockdown of businesses and life as we know it. The spread of COVID-19 has caused significant volatility in the UK economy and as such there is significant uncertainty around the full impact and duration of business disruptions related to the pandemic. The impact of COVID-19 on the company's ability to continue as a going concern has been covered in detail during our going concern review, with the conclusion being that Management's plans are considered feasible and there is no reason to doubt the going concern assumption for the next twelve months from the approval of the accounts.

Our work cannot therefore, be expected to identify all weaknesses in the Company's procedures and systems. However, we will gladly discuss with you an extension of our work to review in more depth any aspect of the business which potentially concerns you.

policies and treatments to ensure that they remain the most appropriate to the Company's particular circumstances for the purposes of giving a true and fair view. We suggest that the Board of Directors should minute this discussion.

Consideration of fraud

We have discussed fraud with Paul Forrester and Joe Stockwell.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

It was confirmed that:

There have been no instances of fraud during the year; and

Those charged with governance of the Company consider there to be a low risk of fraud occurring.

Summary, adjustment and audit report

Audit adjustments agreed with management

We received the draft trial balances for the Company from Joe Stockwell in accordance with the audit timetable.

During the course of the audit, small adjustments were necessary in order to facilitate the preparation of the statutory financial statements, including some reclassifications of balances for statutory presentation purposes.

Where we have proposed reclassifications of balances for disclosure purposes these amendments were reviewed and agreed by Paul Forrester and Joe Stockwell.

Late adjustments provided by management, mainly in order to correct the brought forward balances, bank, unrecorded accruals and income were reviewed as part of our audit process and have been agreed and processed in the financial statements.

The audit adjustments which we have proposed which have had an impact on the profit or loss for the year of the Company have been reviewed and agreed by Joe Stockwell.

Unadjusted items

There were no adjustments which were identified and were not adjusted for by management in the financial statements.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be

undertaken prior to finalisation of the Company accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Audit report

We propose issuing an unqualified audit report on the financial statements of the Company for the year ended 31 March 2020.

Remaining timetable

We are in a position to finalise the statutory accounts subject to the outstanding matters noted on page 3 of this report.

Appendix 1

Management letter points

We wish to draw your attention to the following matters that arose during the course of our audit of the Company's accounts for the year ended 31 March 2020.

Contract with Heathrow Airport has not been renewed since 2018

Observation	The contract with Heathrow is worth roughly £1 million in revenue and is therefore a key client. However the contract expired in March 2018 and has not been formally renewed and is currently being used on a rolling basis.
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Recommendation	We appreciate that the new contract is currently under negotiation but this has been the case for 2 years, we therefore recommend that this is finalised and signed to ensure long-term revenue.
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Control risk over the cashbook and the use of an accounting software

Observation	An excel spreadsheet, based on the cashbook, is used to prepare the TB and accounts.
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Recommendation	We recommend the use of an integrated finance system, via an off the shelf accounting software, to carry out your accounting function. Using this will reduce the likelihood of posting mistakes and will add layers of control to the journal posting process.
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HSBC bank account still held as S.E. Business Services Limited

Observation	It was noted that the bank account held with HSBC UK still refers to Hendeca Group Limited by its previous name.
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Recommendation	We recommend that your account details with HSBC UK are updated with your latest company information.
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Annual Report

Surrey Choices Ltd

For the year ended 31 March 2020

Company Information

Directors	C.M.Curran M. Le Jakobsen J.M.Earl S.Nahajski R.E.Wigley
Registered number	08931490
Registered office	Fernleigh Day Centre Fernleigh Close Walton- on- Thames Surrey England KT12 1RD
Independent auditor	UHY Hacker Young LLP Chartered Accountants & Statutory Auditor Quadrant House 4 Thomas More Square London E1W 1YW
Bankers	HSBC Bank plc Level 30 8 Canada Square Canary Wharf London E14 5HQ

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Directors' Report

For the year ended 31 March 2020

The directors present their report, the strategic report, and the financial statements for the year ended 31 March 2020.

Principal activities

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

Results and dividends

The profit for the year, after taxation, amounted to £656,390 (2019: £733,614).

No dividend was declared for the year.

Directors

The directors who served during the year were:

C.M.Curran (appointed 18 November 2019)
J.M.Earl (appointed 1 February 2020)
S.Nahajski (appointed 1 February 2020)
R.E.Wigley (appointed 15 October 2019)
B A Muir (resigned 21 November 2019)
S T Pollock (resigned 6 June 2019)
M. Le Jakobsen

Employment of disabled persons

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

Employee involvement

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

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

Directors' Report

For the year ended 31 March 2020

Directors' responsibilities statement

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

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

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

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

Disclosure of information to the Company's auditor

The directors confirm that:

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

Auditors

In accordance with the company's articles, a resolution proposing that UHY Hacker Young be reappointed as auditor of the company will be put at a General Meeting

This report was approved by the board on 15 July 2020 and signed on its behalf.



Mette Le Jakobsen
Director

Strategic Report

The directors present their strategic report for the year ended 31 March 2020.

Business review

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

Fair review of business

The results for the business for the year, which are set out in the statement of comprehensive income, show turnover for the period of £14,352,092 (2019 : £14,053,188) and a total comprehensive income for the financial period of £443,390 (2019 : £354,614). At 31 March 2020, the company had net liabilities excluding pension liabilities of £1,667,025 (2019 : £2,619,415) and net liabilities including pension liabilities of £3,770,025 (2019 : £4,213,415). The directors of the company consider that the financial position at the period end is satisfactory, being in line with the business plan.

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

Future developments

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

Principal risks and uncertainties

In the year to date, the global economy was affected by the COVID-19 pandemic and the related market volatility. The directors remain focused on protecting the employees and the Company's ability to maintain high-quality services and stability for our customers. However, as the markets and economic consequences of the pandemic remain to be fully realised, the directors are closely monitoring the situation and will implement measures to reduce any exposure from the economic and social effects of the pandemic on the business.

The long-term impact to the Company is not fully understood at this time, however at the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The spread of COVID-19 around the world in the first and second quarters of 2020 has caused significant volatility in the UK economy and as such there is significant uncertainty around the breadth and duration of business disruptions related to the pandemic. After giving due consideration and making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, with the support of Surrey County Council. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Strategic Report continued

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

Financial instruments

Objectives and policies

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

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

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

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

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

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

This report was approved by the Board on 15 July 2020 and signed on its behalf.



Mette Le Jakobsen
Director

Opinion

We have audited the financial statements of Surrey Choices Limited (“the Company”) for the year ended 31 March 2020 which comprise the Profit and Loss Statement, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice)

In our opinion:

- the financial statements give a true and fair view of the company’s affairs as at 31 March 2020 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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



UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

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

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

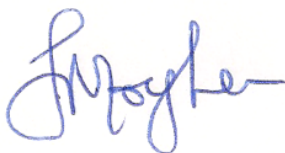
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Jessica Moorghen (Senior Statutory Auditor)
 For and on behalf of UHY Hacker Young

15 July. 2020

Chartered Accountants
 Statutory Auditor

Quadrant House
 4 Thomas More Square
 London E1W 1YW

Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	2020 £	2019 £
Turnover	3	14,352,092	14,053,188
Cost of Sales		(11,406,758)	(11,127,957)
Gross Profit		2,945,334	2,925,231
Administrative Costs		(2,127,190)	(2,043,685)
Operating Profit	4	818,144	881,546
Interest Payable and Financial expenses	8	(160,336)	(147,295)
Profit before tax		657,808	734,251
Tax on Profit	9	(1,418)	(637)
Profit for the year		656,390	733,614
Other Comprehensive Income for the Year			
Profit for the financial period		656,390	733,614
Actuarial (Losses) / Gains on defined benefit pension scheme	19	(213,000)	(379,000)
Other Comprehensive Income for the Year		(213,000)	(379,000)
Total Comprehensive Income for the Year		443,390	354,614

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations

The accompanying notes form part of these financial statements

Statement of Financial Position

As at 31st March 2020

	Note	2020 £	2019 £
Fixed assets			
Tangible Assets	10	<u>130,281</u>	<u>131,871</u>
Current Assets			
Debtors	11	358,242	302,064
Cash at Bank and in Hand	12	<u>2,747,687</u>	<u>1,885,843</u>
		3,105,929	2,187,907
Creditors: Amounts Falling due within one year	13	<u>(2,103,237)</u>	<u>(2,139,193)</u>
Net Current Assets/(Liabilities)		<u>1,002,692</u>	<u>48,714</u>
Total Assets less current Liabilities		1,132,974	180,585
Creditors: Amount falling due after more than one year	14	(2,800,000)	(2,800,000)
Pension Liability	19	(2,103,000)	(1,594,000)
Deferred Tax Liability		-	-
Net Liabilities		<u>(3,770,025)</u>	<u>(4,213,415)</u>
Capital and Reserves			
Called-up Share Capital	18	100	100
Profit and Loss Account	17	<u>(3,770,125)</u>	<u>(4,213,515)</u>
		<u>(3,770,025)</u>	<u>(4,213,415)</u>

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



Mette Le Jakobsen
Director
15 July 2020

Statement of cash flows

For the year ended 31 March 2020

	2020	2019
	£	£
Cash flow from operating activities		
Profit /(Loss) for the financial year	656,390	733,614
Adjustments for:		
Depreciation of tangible assets	88,752	102,038
Interest paid	103,715	94,646
Pension service and finance cost recognised	416,000	436,000
Employee's pension contributions	(120,000)	(146,000)
(Increase) / Decrease in trade and other debtors	(56,178)	74,459
Increase /(Decrease) in trade creditors	<u>(35,957)</u>	<u>13,650</u>
Cash flow from operations	<u>1,052,722</u>	<u>1,308,406</u>
Net cash generated by operating activities	1,052,722	1,308,406
Cash flows from investing activities		
Improvement of Lease property	(5,004)	(4,951)
Purchase of other fixed assets	<u>(82,159)</u>	<u>(77,858)</u>
Net cash from investment activities	(87,163)	(82,809)
Cash flows from financing activities		
Interest accrual	<u>(103,715)</u>	<u>(94,646)</u>
Net cash used by financing activities	(103,715)	(94,646)
Net increase in cash and cash equivalents	861,844	1,130,952
Cash and cash equivalents at the beginning of the year	<u>1,885,843</u>	<u>754,891</u>
Cash and cash equivalents at the end of the year	<u><u>2,747,687</u></u>	<u><u>1,885,843</u></u>

Statement of Changes in Equity

For the year ended 31 March 2020

	Share Capital	Profit and Loss Account	Total Equity
	£	£	£
At 31 March 2018	100	(4,568,129)	(4,568,029)
Profit for the year		733,614	733,614
Other Comprehensive income for the period			
Actuarial Gain/ Loss net of tax		(379,000)	(379,000)
At 31 March 2019	100	(4,213,515)	(4,213,415)
Profit for the year		656,390	656,390
Other Comprehensive income for the period			
Actuarial Gain/ Loss net of tax		(213,000)	(213,000)
At 31 March 2020	100	(3,770,125)	(3,770,025)

Notes to the Financial Statements

For the year ended 31 March 2020

1. Accounting policies

1.1 Basis of preparation of financial statements

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

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

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £. The following principal accounting policies have been applied:

1.2 Going concern

The company relies on a contract with Surrey County Council to provide certain services to the Council. This has recently been renewed to run to 31 March 2025. Whilst there is no minimum commitment to contract volumes from the Council, the directors maintain close contact with the Council and have no reason to believe that reasonable purchasing volumes would not continue in the foreseeable future.

The Company funds its working capital requirements through an agreed ten-year credit facility with its parent entity. The Directors have reviewed the Company's forecasts for the following 12 months from the date of formally approving the annual report and financial statements.

After giving due consideration and making enquiries in reference to Covid-19, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, with the support of Surrey County Council. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

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

1.4 Tangible fixed assets

Depreciation is provided on tangible fixed assets so as to write off the cost less any estimated residual value, on a straight-line basis over their expected useful economic life. Assets are assessed for impairment on at least an annual timeframe.

The estimated useful lives range as follows:

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

Notes to the Financial Statements

For the year ended 31 March 2020

1.5 Operating leases

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

1.6 Debtors

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

1.7 Cash and cash equivalents

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

1.8 Financial instruments

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

Financial instruments (continued)

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

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Actuarial gains and losses are recognised immediately in Other Comprehensive Income.

1.9 Creditors

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

1.10 Finance costs

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

1.11 Pensions

Teachers' Pension Scheme (TPS)

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

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

Surrey County Council Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are

Notes to the Financial Statements

For the year ended 31 March 2020

Pensions (continued)

the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

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

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

Defined contribution pension plan

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

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

1.12 Provisions for Liabilities

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

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

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

1.13 Taxation

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

Taxation (continued)

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

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

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

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

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

2.1. Improvement of Lease Property

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

2.2. Pension and other post-employment benefits

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

2.3 Useful lives of depreciable assets

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

2.4. Deferred tax asset

Management reviews assets at each reporting date to ensure deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. The current prudent judgement made by management is that the deferred tax asset is not recoverable (i.e. although there is a total potential deferred tax asset of £242,356, management do not consider there is evidence that sufficient taxable profits will be available in the future to utilise this asset against).

Notes to the Financial Statements

For the year ended 31 March 2020

3. Turnover

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

4. Operating profit

The operating profit is stated after charging

	2020	2019
	£	£
Operating leases - property	836,945	834,744
Operating leases - motor vehicles	109,916	109,916
Depreciation of owned assets	88,752	102,038
Auditor's remuneration	21,000	20,500
Defined contribution pension cost	120,000	146,000
Other scheme contribution pension cost	<u>737,341</u>	<u>679,679</u>

5. Auditor's remuneration

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

	2020	2019
	£	£
Audit of financial statements	17,500	17,000
Taxation compliance service *	-	-
Other audit related service: certification of Teachers' Pensions	<u>3,500</u>	<u>3,500</u>
	<u>21,000</u>	<u>20,500</u>

* Taxation compliance service in 2020 was provided by an independent company, RSM UK Tax and Accounting, for a fee of £1,790.

Notes to the Financial Statements

For the year ended 31 March 2020

6. Particulars of employees

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

	2020	2019
	£	£
Wages and salaries	6,826,606	6,563,947
Social security	558,324	536,609
Pension cost	857,341	825,679
	<u>8,242,271</u>	<u>7,962,235</u>

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

	2020	2019
	£	£
Support workers and operational staff	302	300
Managers	16	17
	<u>318</u>	<u>317</u>

7. Directors' remuneration

	2020	2019
	£	£
Wages and salaries	111,250	117,875
Social security Cost	13,955	15,007
Other Pension costs	5,259	4,593
	<u>130,464</u>	<u>137,475</u>

8. Interest payable and financial expenses

	2020	2019
	£	£
Interest on SCC Loan	103,715	94,645
Bank Interest Receivable	(12,379)	(3,350)
Other Finance Costs	69,000	56,000
	<u>160,336</u>	<u>147,295</u>

Notes to the Financial Statements

For the year ended 31 March 2020

9. Taxation

	2020	2019
	£	£
Current tax		
United Kingdom Corporation tax	1,418	637
Deferred tax		
Origination and reversal of timing differences	(654,448)	-
Prior year deferred tax adjustment	-	-
	<u>(653,030)</u>	<u>637</u>
Total deferred tax (expenditure)/income on ordinary activities		
Tax relating to other comprehensive income		
Origination and reversal of timing differences	(40,471)	-
Tax relating to items of other comprehensive income	<u>(40,471)</u>	<u>-</u>
Provision for deferred tax		
Fixed Asset timing differences	(41,307)	-
Short term timing differences	(607,564)	-
Losses and other deductions	(46,048)	-
Total deferred tax (asset)/liability	<u>(694,919)</u>	<u>-</u>
Movement in provision		
Deferred tax charged to the income statement in the period	(654,448)	-
Deferred tax charged to the statement of comprehensive income	(40,471)	-
Provision at end of period	<u>(694,919)</u>	<u>-</u>
Factors affecting tax charge for the year	<u>-</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31 March 2020

9. Taxation (continued)

Factors affecting tax charge for the year

	2020	2019
	£	£
Profit on ordinary activities before tax	657,808	734,251
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	124,983	139,508
Effects of:		
Fixed asset differences	2,807	4,847
Gains /Losses or otherwise transferred	(40,470)	(72,010)
Other tax adjustments, reliefs and transfers	(56)	-
Deferred tax relating to other comprehensive income	40,471	-
Adjust closing deferred tax to average rate of 19%	-	82,186
Adjust opening deferred tax to average of 19%	(82,186)	(89,734)
Other deferred tax not recognised	<u>(698,579)</u>	<u>(64,160)</u>
Tax on results on ordinary activities	<u><u>653,030</u></u>	<u><u>637</u></u>

Notes to the Financial Statements

For the year ended 31 March 2020

10. Fixed Assets

	Leasehold property Improvements	Furniture, Fixtures & Equipment	Former Council Fixtures & Fittings	Computer Equipment	Motor Vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 April 2019	466,979	148,783	411,504	412,126	35,400	1,474,792
Additions	5,004	17,570	-	52,614	11,975	87,163
Disposal	-	-	-	-	-	-
At 31 March 2020	471,983	166,353	411,504	464,740	47,375	1,561,955
Balance sheet - Fixed Assets	471,982	166,353	411,504	464,740	47,375	1,561,955
Difference	-	-	-	-	-	-
Depreciation						
At 1 April 2019	420,531	132,037	411,504	373,228	5,622	1,342,922
Provided in the year	41,262	11,478	-	21,551	14,461	88,752
Disposal	-	-	-	-	-	-
At 31 March 2020	461,793	143,515	411,504	394,779	20,083	1,431,674
Balance sheet - Accumulated	461,793	143,515	411,504	394,779	20,083	1,431,674
Difference	-	-	-	-	-	-
Net Book amount at						
At 31 March 2020	10,190	22,839	-	69,961	27,292	130,281
Net Book amount at						
At 31 March 2019	46,448	16,747	-	38,899	29,778	131,871

Notes to the Financial Statements

For the year ended 31 March 2019

11. Debtors

	2020	2019
	£	£
Trade debtors	310,400	272,633
Prepayments and accrued income	<u>47,842</u>	<u>29,431</u>
	<u>358,242</u>	<u>302,064</u>

12. Cash and cash equivalents

	2020	2019
	£	£
Cash at bank and in hand	<u>2,747,687</u>	<u>1,885,843</u>

13. Creditors: Amount falling due within one year

	2020	2019
	£	£
Trade creditors	654,167	270,762
Other taxes and social security	796,012	489,756
Other creditors *	66,264	1,031,670
Accruals	<u>586,793</u>	<u>347,005</u>
	<u>2,103,237</u>	<u>2,139,193</u>

* Includes prepaid service income of £nil (2019 - £1,021,119)

Notes to the Financial Statements

For the year ended 31 March 2019

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

Maturity of Debt

Surrey Choices Ltd	Loans and Overdrafts	
	2020	2019
	£	£
In more than one year but not more than two years	350,000	350,000
In more than two years but not more than five years	1,050,000	1,050,000
In more than five years	<u>1,400,000</u>	<u>1,400,000</u>
	<u>2,800,000</u>	<u>2,800,000</u>

Loans included within creditors, are analysed as follows:

	2020	2019
	£	£
2.5% above base revolving loan	2,100,000	2,100,000
4.24% set-up loan facility	<u>700,000</u>	<u>700,000</u>
	<u>2,800,000</u>	<u>2,800,000</u>

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

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

The company received confirmation from SCC in 2018/19 that these terms would be extended. They will be paid in annual instalments of £350k from 2021/22, and to be fully repaid by 2028/29.

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

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

Notes to the Financial Statements

For the year ended 31 March 2019

15. Leasing Commitments

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

	2020	2019
	£	£
Within one year	92,379	548,453
Between one and five years	<u>31,075</u>	<u>191,121</u>

16. Financial instruments

Financial instruments are measured at amortised cost

Financial assets	2020	2019
	£	£
Debtors	310,400	272,633
Cash	<u>2,747,687</u>	<u>1,885,843</u>
	<u>3,058,087</u>	<u>2,158,476</u>
Financial liabilities		
Trade creditors	654,167	270,762
Other creditors	653,057	357,556
Loans	<u>2,800,000</u>	<u>2,800,000</u>
	<u>4,107,224</u>	<u>3,428,317</u>

Notes to the Financial Statements

For the year ended 31 March 2019

17. Profit and Loss Account

	2020	2018
	£	£
Opening balance	(4,213,515)	(4,568,129)
Profit/(Loss) for the financial period	656,390	733,614
Actuarial (loss)/gain on defined benefit pension scheme asset	(213,000)	(379,000)
Deferred tax asset/(liability) on defined benefit scheme asset	-	-
Closing balance as at 31 March	<u>(3,770,125)</u>	<u>(4,213,515)</u>

18. Share Capital

	2020	2019
	£	£
Allotted, called up and fully paid		
100 - Ordinary shares of £1 each	<u>100</u>	<u>100</u>

19. Pension obligations

The trustees of the TPS and LGPS schemes hold the assets of the scheme, separately from those of the company. The company is responsible for the pensionable costs incurred in respect of the company's employees. The pension schemes were fully funded by Surrey County Council prior to transfer.

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

With regard to the LGPS, the changes in obligation as at 31 March 2020 is £15,000 (2019 - £1,233,000) with a net liability of £2,103,000 (2019 - £1,594,000). Surrey County Council have provided an indemnity in relation to pension liabilities.

The service cost charged to the profit and loss account for the period 31 March 2020 is £347,000 (2019 - £380,000) and the net finance cost £69,000 (2019 - £56,000). The actuarial loss for the period charged to the statement of recognised gains and losses is loss- £213,000 (2019 – loss -£379,000).

	2020	2019
	£	£
Scheme assets	5,860,000	6,354,000
Scheme obligations	(9,000,000)	(8,985,000)
	<u>(3,140,000)</u>	<u>(2,631,000)</u>
Net liability at transfer - obligation of Surrey County Council	(1,037,000)	(1,037,000)
Net liability arising since transfer	<u>(2,103,000)</u>	<u>(1,594,000)</u>
	<u>(3,140,000)</u>	<u>(2,631,000)</u>

Notes to the Financial Statements

For the year ended 31 March 2019

19. Pension obligations (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

	2020 £	2019 £
Defined Benefit obligation at the start of the period	8,985,000	7,752,000
Current Service cost	347,000	380,000
Interest Expense	229,000	214,000
Contributions by plan participants	59,000	69,000
Actuarial losses /(gains)	(518,000)	644,000
Benefit paid	(102,000)	(74,000)
Defined benefit obligation at the end of the period	<u>9,000,000</u>	<u>8,985,000</u>

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

	2020 £	2019 £
Fair value of plan assets at the start of the period	6,354,000	5,790,000
Income Interest	160,000	158,000
Actuarial gains /(losses)	(731,000)	265,000
Benefit paid	(102,000)	(74,000)
Contribution by the Employer	120,000	146,000
Contribution by plan participants	59,000	69,000
Fair value of plan assets at the end of the period	<u>5,860,000</u>	<u>6,354,000</u>

Notes to the Financial Statements

For the year ended 31 March 2019

19. Pension obligations (continued)

Defined benefit costs recognised in profit or loss

	2020	2019
	£	£
Current service cost	347,000	380,000
Net interest cost	69,000	56,000
Loss on curtailments	-	-
Defined benefit costs recognised in profit and loss account	<u>416,000</u>	<u>436,000</u>

Defined benefit costs recognised in other comprehensive income

	2020	2019
	£	£
Return on plan assets (excluding amounts included in net interest cost) - gain/ (loss)	(731,000)	265,000
Experience gain and losses on the liabilities – gain/ (loss)	(512,000)	-
Effects of changes in the demographic and financial assumptions underlying the present value liabilities gain/ (loss)	1,030,000	(644,000)
Total amount recognised in other comprehensive income - (loss) gain	<u>(213,000)</u>	<u>(379,000)</u>

	2020	2019
	%	%
Assets		
Equities	74	69
Bonds	17	21
Property	7	7
Cash	2	3
Total assets	<u>100</u>	<u>100</u>

Notes to the Financial Statements

For the year ended 31 March 2019

19. Pension obligations (continued)

Financial assumptions

	2020	2019
Discount rate	2.3%	2.5%
Salary growth rate	2.7%	2.7%
Pension growth rate	1.8%	2.4%
Average life expectancies male*	87.1 Yrs	89.1 Yrs
Average life expectancies female*	87.9 Yrs	91.4 Yrs

The amount of actuarial gains and losses recognised in the Statement of comprehensive income was £ 213,000 loss (2019 - £ 379,000 loss)

The Company expects to contribute £119,000 to its Defined benefit pension scheme in 2021.

20. Related party transactions

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

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

	2020	2019
	£	£
Remuneration paid to key management	341,529	312,218

21. Ultimate controlling party

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

22. Company information

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

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Surrey Choices Limited

Report to the Board
Year ended 31 March 2020

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The matters raised in this Report to the Board are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for any other purpose.

Introduction

Surrey Choices Ltd (“the Company” or “SC”)

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of the Company for the year ended 31 March 2020.

This report provides an update to the significant matters raised in our Audit Service Plan, which was provided to the Company on 1 May 2020.

This report provides an update to the matters discussed at that meeting and the other matters which arose during the course of our audit.

Audit scope

Our terms of engagement are set out in our engagement letter. That letter sets out our audit responsibilities and their limitations and the responsibilities of the directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage

and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Communication with those charged with governance

International Standard on Audit 260 “Communication of audit matters with those charged with governance” (“ISA 260”) is an auditing standard designed to ensure that there is effective two-way communication between auditors and those charged with governance of the Company. In the context of ISA 260 “those charged with governance” means the Board of Directors of the Company.

Matters relating to the planning, conduct and results of the audit are communicated to those

charged with governance of the Company on a sufficiently prompt basis to enable the recipients to take appropriate action.

During the audit, regular communications were made by us to Andrew Gray and Nick Ighodaro at SC. These communications were generally made informally, either by telephone or email.

After the completion of the audit, important matters requiring the attention of Directors are communicated by way of this report.

Audit independence

In accordance with the requirements of ISA 260 and the Ethical Standard issued by the Financial Reporting Council, we confirm the matters set out below.

We discussed the specific threat to you posed with our involvement in the services provided and how we mitigate such threats in our Audit Service Plan. We have not identified any further threats during the course of the audit.

We confirm that: We are auditors of Surrey Choices Ltd;

The audit is subject (if selected as part of a sample) to our internal independent quality control procedures, and reviews by the ICAEW as part of their inspections.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact:

Jessica Moorghen

t: +44 (0) 20 7216 4670

e: j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Company and, accordingly is addressed to the Board.

It is not intended to include every matter that came to our attention. For these reasons, we

believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

UHY Hacker Young
June 2020

Acknowledgement

We wish to thank Andrew Gray and Nick Ighodaro for their helpfulness and co-operation during the course of the audit process.

Audit status

Audit structure

We have carried out the audit of the Company. The audit working papers have been reviewed by the audit manager and audit partner. Any significant issues arising during our audit were discussed with Andrew Gray and have been included in this report if deemed necessary.

The audit was planned and conducted to concentrate on the high risk areas in the financial

statements. The key audit issues arising in these areas are explained further on page 5 below.

The accounting systems were documented and the controls over those systems evaluated. Using these assessments we designed and conducted detailed tests of transactions and balances.

Current position

The audit of the Company is substantially complete. All queries arising during the audit were dealt with as the audit progressed. There were no limitations on the scope of our audit work completed to date.

There are, however, at the time of writing some outstanding unresolved audit matters which are

set out below and which may or may not have an impact on our audit opinion on the Company financial statements.

We expect to be in a position to sign our audit report as soon as practicable after clearing the outstanding matters.

Outstanding audit matters:	Signed Letter of Representation from the directors;
	Signed Directors' Report;
	Signed Statement of Financial Position and;
	Completion of our subsequent events review to the date of our audit report.

Identified key risk areas and our responses

We have identified the following key risk areas as part of our audit planning processes. During our audit we focused on these areas, in addition to our other normal audit procedures, and we set out below our comments and the results of our testing.

Management override of controls

Explanation of risk

Auditing standards require that the risk of management override of controls should be considered to be a significant risk for all audit engagements.

Audit response to risk

We will review a sample of transactions in the year for unusual items outside the ordinary course of

business and also test journals raised to ensure that such entries are relevant to the Company's business.

Outcome

Audit testing of a sample of journals posted in the year and other significant transactions did not indicate any instances of management override of controls occurring in the accounts.

Revenue recognition

Explanation of risk

Auditing standards require that revenue recognition is considered a significant risk unless it may be appropriately rebutted. There is a risk that revenue is incomplete and that it has not been accurately recorded or calculated.

Audit response to risk

A sample of revenue items were chosen and agreed to supporting documentation. A sample of the recognised income was also chosen either side of the year-end to ensure revenue recognition was accurate.

Any manual journals relating to work in progress or deferred income were recalculated on a sample

basis and agreed to the supporting documentation to gain assurance over the accuracy of the calculation.

Outcome

There were no errors noted in the testing for both completeness and accuracy of revenue. We performed substantive testing on all material revenue streams. This is to determine whether the accounting policy had been correctly applied and performed specific cut-off testing to ensure that revenue has been accounted for in the correct period. All items sampled were satisfactory tested with no issues noted. As such we believe that revenue is materially correct.

Debtor recoverability

Explanation of risk

There is a risk that debtor balances are not recoverable and therefore are overstated.

Audit response to risk

A sample of debtors was agreed to post-year end receipts to ensure amounts are recoverable. Any doubts raised over recoverability were queried with Sarah McDonald and documentation obtained to verify recoverability / dates.

Outcome

Our sample items tested for recoverability overall proved adequately received post-year end leading to the conclusion that debtors are materially correct.

Valuation of pension scheme liabilities

Explanation of risk

The fair value of the company's share of its LGPS and TPS pension liabilities will need to be included in the financial statements.

Management do not have the appropriate expertise to value the pension liability and therefore a valuation needs to be obtained by the Local Authority who have arranged for professional valuations from actuaries.

There is a risk that the pension scheme liability will not be recorded and accounted for incorrectly due to the complexities of the FRS 102 requirements.

Audit response to risk

As part of our audit procedures, we will assess the competence of the actuary, consider the reasonableness of the basis of the calculation and the assumptions made in the valuation.

We will review the disclosures in the financial statements, of both the pension liabilities and any

corresponding asset, and confirm that these are reasonable and complete.

Outcome

Assessing the fair value of the pension scheme assets and liabilities is a complex exercise and the valuation has been obtained from the Local Authority who have arranged for professional valuations from actuaries.

As part of our audit procedures, the competence of the actuary performing the valuation was assessed.

In addition, the assumptions and basis of the calculations were assessed in light of assumptions used in similar valuations of companies that UHY also audit. The impacts on the valuation of using differing assumptions were assessed.

We have reviewed the FRS102 disclosures in the actuarial valuation and confirm that these are reasonable and complete.

Going Concern

Explanation of risk

As the company is profit making, with healthy cash reserves at the year-end, going concern would not usually be considered a risk to an entity in this financial position.

However, due to the economic uncertainty surrounding COVID-19, we have highlighted it as a risk to consider in detail as this may have a significant impact on the company's ability to continue as a going concern and pay back the loan to SCC as payments fall due. There is also a risk of reduced funding from the Surrey County Council going forward. However, as the block contract with the SCC is guaranteed until March 2021, the risk of this occurrence is considerably reduced.

Audit response to risk

We will discuss in detail with the directors, the steps being taken to ensure that the company will continue as a going concern. We will request and review the cash flow forecasts of the company for the next 12 months and assess the reasonableness

of the assumptions made. We will also perform a sensitivity analysis on the cash flow forecasts.

Outcome

We assessed the company's ability to continue their operations until the end of June 2021. We have reviewed the cash flow forecasts to end of June 2021 and compared actual results from April and May 2020 to those predicted in the forecast.

The key assumptions made in the cash flow forecast were reviewed and deemed reasonable.

We also performed a sensitivity analysis on the key assumptions to ensure that in a reasonable worst case scenario, the company would continue to have sufficient cash to continue in their operations for the 12 months from signing the audit report.

It was concluded that Management's plans are considered feasible and there is no reason to doubt the going concern assumption.

Opening Balances

Explanation of risk

This is a first year audit, under ISA 510- Initial Engagements; there is limited assurance over the accuracy of the brought forward balances.

Audit response to risk

We will vouch opening balances to prior year signed accounts and ensure all audit journals have been posted correctly. We will complete detailed work programmes tailored to gaining assurance on the accuracy of the brought forward balances. We will review records, as well as accounting and control procedures in the preceding period. We will also consult with the previous auditor and review (with their permission) their working papers and relevant management letters.

Outcome

During our testing of the brought forward balances, it was identified that retained earnings did not agree to the prior year signed accounts. Once this was corrected, this affected the bank balance, meaning an amended bank reconciliation was required to amend this. This error was amended by the client as part of a late client journal, which was subsequently reviewed and deemed reasonable.

Internal controls

Our audit is tailored to our assessment of the risk of material misstatement, taking into account the inherent risk of error or fraud and our assessment of the effectiveness of controls in eliminating or reducing those risks.

We cannot examine every activity and procedure within the Company, nor can we substitute for management responsibility to maintain adequate controls at all levels of business.

Accounting policies

We have reviewed the accounting policies adopted by the Company in the preparation of its financial statements and consider that they are appropriate and suitable for the Company's particular circumstances.

As required by FRS 102, the Board of Directors should formally review the Company's accounting

Our work cannot therefore, be expected to identify all weaknesses in the Company's procedures and systems. However, we will gladly discuss with you an extension of our work to review in more depth any aspect of the business which potentially concerns you.

policies and treatments to ensure that they remain the most appropriate to the Company's particular circumstances for the purposes of giving a true and fair view. We suggest that the Board of Directors should minute this discussion.

Significant subsequent events

In March 2020, many countries across the global entered into widespread lockdown of businesses and life as we know it. The spread of COVID-19 has caused significant volatility in the UK economy and as such there is significant uncertainty around the full impact and duration of business disruptions related to the pandemic. The impact of COVID-19 on the company's ability to continue as a going concern has been concerned in detail during our going concern review, with the conclusion being that Management's plans are considered feasible and there is no reason to doubt the going concern assumption.

Consideration of fraud

We have discussed fraud with Andrew Gray and Nick Ighodaro.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

It was confirmed that:	There have been no instances of fraud during the year; and Those charged with governance of the Company consider there to be a low risk of fraud occurring.
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Summary, adjustment and audit report

Audit adjustments agreed with management

We received the draft trial balances for the Company from Nick Ighodaro in accordance with the audit timetable.

During the course of the audit, small adjustments were necessary in order to facilitate the preparation of the statutory financial statements, including some reclassifications of balances for statutory presentation purposes.

Where we have proposed reclassifications of balances for disclosure purposes these

amendments were reviewed and agreed by Andrew Gray.

Late adjustments provided by management, mainly in order to correct the brought forward balances, bank, unrecorded accruals and income were reviewed as part of our audit process and have been agreed and processed in the financial statements.

We have not proposed any audit adjustments that would have had an impact on the profit or loss for the year of the Company.

Unadjusted items

During the course of our audit we identified some non-material items which have not been adjusted for in the financial statements.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be

undertaken prior to finalisation of the Company accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Audit report

We propose issuing an unqualified audit report on the financial statements of the Company for the year ended 31 March 2020.

Remaining timetable

We are in a position to finalise the statutory accounts subject to the outstanding matters noted on page 3 of this report.

Appendix 1

Management letter points

We wish to draw your attention to the following matters that arose during the course of our audit of the Company's accounts for the year ended 31 March 2020.

Loan Agreement with Surrey County Council (SCC) was not signed

Observation	The amended loan agreement with SCC was originally not signed. It was also noted that upon review of correspondence with SCC, there was a period where the original loan agreement had been expired and a new agreement had not yet been completed.
Implication	Expired loan agreements may result in potential dispute between parties involved, resulting in fines or litigation.
Recommendation	This is less of an issue as the agreements are with the parent entity but nonetheless, please ensure that all loan agreements are up to date and signed by both parties. However we appreciate that this was subsequently signed.

Brought forward balances

Observation	Brought forward retained earnings did not agree to the prior year signed accounts. Once this was corrected, this affected the bank balance, meaning an amended bank reconciliation was need to amend this. I appreciate this was partly due to an issue with Xero.
Implication	Incorrect brought forward balances may lead to material errors in the financial statements.
Recommendation	Please ensure brought forward balances are reconciled to the carried forward prior year figures.

Late client journals	
Observation	During completion of field work, there were some minor changes made to the Trial Balance that were not made aware to us.
Implication	This may result in increased time spent reconciling the changes made to the trial balance.
Recommendation	We appreciate that the audit took place very close to the year end and adjustments were likely to be raised. Please can you let us know if there is any further changes to the figures, as this affects our materiality and requires us to reassess each audit test to ensure we have covered a sufficient level of substantive testing, it also means that we have to reconcile our TB to the updated one each time.

Employee Number Disclosure	
Observation	Average number of employees were being counted by taking half numbers for employees who only work part-time. This meant that the number of employees per the monthly payroll reports varied significantly from the numbers per the monthly average workings. This also meant having to restate 2018 employee figures.
Implication	Disclosure of average number of employees in the financial statements may be incorrect and provide an inaccurate representation of the actual employee count.
Recommendation	Under FRS 102, the disclosures required by s411 must be based on the average number of employees irrespective of whether they are full-time or part-time. Therefore, we need the average based on the actual number of employees; this can be split for those who work full time and part time separately.

Old balances on the bank reconciliation	
Observation	There are old balances on the bank reconciliation for the current account – these are dated 24/8/18 and 7/12/2018. We understand that these relate to funds received but subsequently queried as they may have been incorrectly given.
Implication	The cash and cash equivalents may be misstated.
Recommendation	Please clear these amounts as they are historic. However we appreciate that there have been problems with Xero stopping you from doing so.



Report and financial statements

Year ended 31 March 2020

Company registration number: 09089937

Halsey Garton Property Ltd

Company Information

Directors	S Smyth (resigned on 29 May 2019) E Hawkins N O'Connor (appointed on 03 September 2019)
Company Number	09089937
Registered office	County Hall Penrhyn Road Kingston upon Thames KT1 2DN
Auditor	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW
Bankers:	HSBC 60 Queen Victoria Street London EC4N 4TR

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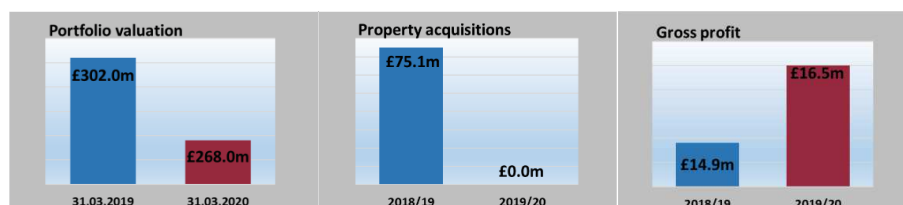
Strategic report

for the year ended 31 March 2020

The directors present their Strategic report with the consolidated and individual financial statements for the year ended 31 March 2020.

Group highlights

- Property portfolio of £268m (31 March 2019: £302.0m)
- Property acquisitions totalling £nil in 2019/20 (2018/19: £75.1m)
- Gross profit of £16.5m for 2019/20 (2018/19: £14.9m)
- Profit before tax and fair value adjustments of £2.0m for 2019/20 (2018/19: £2.4m)
- Dividend proposed of £nil for the year to 31 March 2020 (2018/19: £1.6m)



Business Model

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

Debt finance is secured solely from Surrey County Council and during the financial year 2019/20 Halsey Garton paid £14.3m in interest payments to the council (2018/19: £12.2m).

Financial summary

Over the last five years Halsey Garton Property Investments Ltd has worked at pace to build a property portfolio now valued at £268m. The company made a gross profit of £16.5m, up 11% from last year. The increase in gross profit was achieved as a result of the full year impact of rental incomes from acquisitions made during 2018/19. Based on the performance of the company in 2019/20 and the potential impact of Covid-19 the directors have recommended not to approve a dividend for 2019/20 at this stage. Assuming no further acquisitions, £16.0m rental income will be due to the company in the financial year 2020/21.

The net change in values of our investment properties is a key component of the company's profit before tax. Due to the net deficit of £34.1m on revaluation of investment properties this year, the company made a loss before tax of £32.1m. Further information on the annual property valuation is provided below.

The total capital of the company consists of shareholders' equity and net debt. Over the year our debt remained constant as there were no further investments made in 2019/20. Our loan to value (LTV) ratio increased from 77% to 87%, principally as a result of decreases in the underlying values of our properties.

Principal business risks

Property investment is subject to inherent market risks which can be mitigated to some degree by the creation of a balanced portfolio of investments. However, the risk of tenant failure is increasing and will continue to do so if the general economic conditions in the UK over the longer term are negatively impacted by Brexit, Covid-19 or other factors. Investments are evaluated carefully with due regard to risk and exposure to potential tenant voids and are managed to avoid, wherever possible, over-reliance upon single tenants or types of tenants in terms of their impact as a percentage of the total portfolio.

Tenant voids are currently 3.0% (3.2% 2018/19) measured in terms of an estimate of market rent receivable as a percentage of the total open market rental value of the portfolio.

Financial risk management

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

The overall credit risk of trade receivables is considered to be low – a credit report is obtained from an independent rating agency for each tenant prior to acquisition or upon agreement of a new lease. Tenants currently in known financial difficulties represent 4% of the 2019/20 rent roll.

Property review

As at 31 March 2020:

- 17 properties, comprising 1,843,000 square feet of space
- 56 (48 prior year) commercial tenants providing a contractual annual rent roll of £17.2m (£15.3m prior year)
- Weighted average unexpired lease term (WAULT) of 10.9 years to lease breaks/expiry
- Future income stream from tenants under lease agreements of £194.7m.

Property valuation

The fair value of the company's investment property is measured annually at each reporting date with the changes in value reported in the company profit and loss account as an unrealised gain or loss. The revaluation exercise completed as at 31 March 2020 has resulted in an overall decrease in underlying values of £34.1m compared to the value of the assets last year. These reductions are driven by general market sentiment for retail and uncertainty regarding the future of Debenhams at the time of valuation.

An unrealised loss is an accounting adjustment that does not impact upon the company's ability to provide a dividend since it is something that has not happened nor will happen unless the company decides to sell the asset. The company is free to determine when to sell an asset and therefore it is unlikely that there will be a realised loss since assets will generally only be sold when it is beneficial to do so. Similarly an unrealised gain cannot be used to

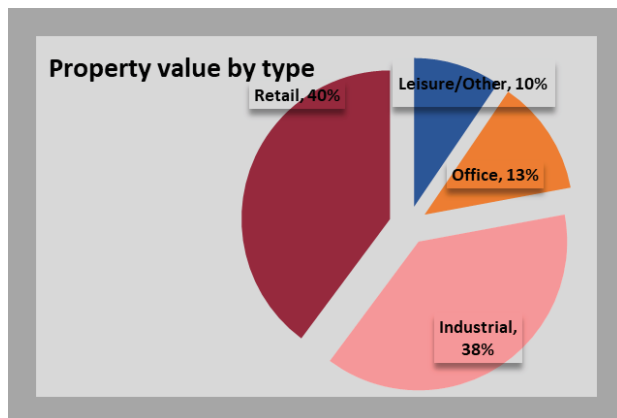
provide a bigger dividend than that permissible from the underlying profits generated by the company.

As we are required to ensure that the balance sheet value is as per the valuation, this also requires the write-down of any transaction costs associated with purchases. Transaction costs include stamp duty of 5% and other fees and hence it is unlikely that increases in value will offset the costs of purchase in the early years. Purchase transaction costs incurred during the year are £nil (2018/19 £4.4m).

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

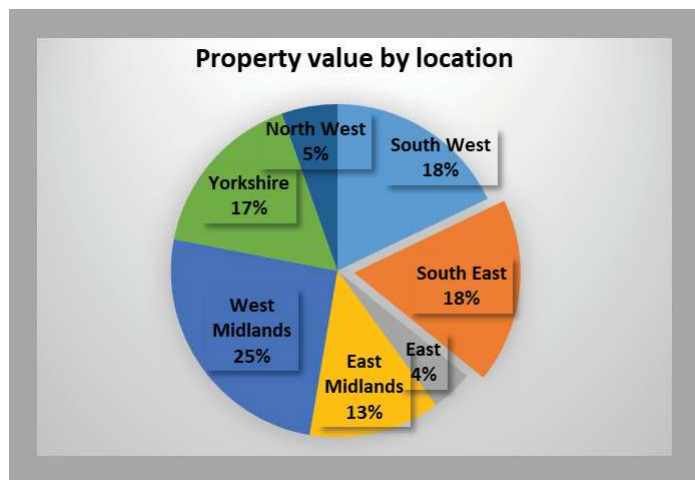
Portfolio overview

The Halsey Garton property portfolio sits within the investment portfolio of SCC as a whole, which seeks to build a diversified portfolio of assets in order to manage risks and secure long term income returns for the council. This year there have been no acquisitions or disposals from the portfolio. As at 31 March 2020 our portfolio consisted of 17 properties across multiple sectors and locations throughout England, as detailed below.



The Halsey Garton group portfolio is weighted towards the retail sector however on a SCC group basis there is a balanced portfolio across sectors.

Properties are geographically spread across England.



Portfolio detail

Property	Type	Description	Acquisition Date	Asset Value £000
Hampton Park West, Melksham	Industrial	Manufacturing and warehouse facility	Nov-15	13,850
Hawkley Drive, Bristol	Industrial	Manufacturing and warehouse facility	Apr-16	14,400
Washford Mills, Redditch	Retail	Retail warehouse units	May-16	5,850
Manton Wood, Worksop	Industrial	Distribution warehouse	May-16	8,450
Aztec West, Bristol	Office	Single tenanted office	Jun-16	19,700
Wiggs House, Salford	Industrial	Distribution warehouse	Jul-16	8,900
Willowbrook, Loughborough	Retail	Retail units (out of town location)	Nov-16	13,450
Birmingham Road (Travelodge), Stratford Upon Avon	Leisure / Retail	Hotel and retail units	Nov-16	9,100
Friar Street (Vue Cinema), Worcester	Leisure / Retail	Cinema and retail / restaurant units	Nov-16	8,000
Oakgrove Retail Park, Milton Keynes	Retail	Retail units (out of town location)	Dec-16	26,250
Stratham Street, Macclesfield	Retail	Retail warehouse unit	Dec-16	5,650
High Street, Winchester	Retail	High Street department store	Mar-17	7,850
Malvern Shopping Park	Retail	Retail units (out of town location)	Sep-17	45,000
Blenheim Park, Nottingham	Industrial	Distribution warehouse	Mar-18	12,200
Comet Square (Travelodge), Hatfield	Leisure	Hotel	Oct-18	11,000
West of Park Spring Road (Symphony), Barnsley	Industrial	Manufacturing	Dec-18	44,300
Kitemark Court, Milton Keynes	Office	Single tenanted office	Dec-18	14,000
Total Asset Value				267,950

Key performance indicators (KPIs)

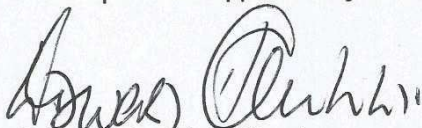
Objective	KPI	Performance 2019/20	Performance 2018/19
Maximise income returns from our property portfolio	Underlying revenue profit (before tax and fair value adjustments)	Profit of £2.0m achieved, underperforming target by £0.1m	Profit of £2.5m achieved, underperforming target by £0.1m
	Tenant voids percentage (based on open market rental value)	Tenant voids at 3.0% as at 31 March 2020, outperforming target by 3.8%	Tenant voids at 3.2% as at 31 March 2019, outperforming target by 3.6%
Secure long term income stream	WAULT to lease breaks/expiries	10.9 years, outperforming target by 2.3 years	10.7 years, outperforming target by 2.1 years

Business conduct

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

Halsey Garton reviews its health and safety obligations in relation to its property portfolio on a regular basis. As part of an agreed approach with our managing agents, we have undertaken a detailed health and safety risk assessment of all our properties with a view to identifying any remedial actions required.

This report was approved by the Board on *18 Aug 2020* and signed on its behalf by:


Edward Hawkins, Director

Halsey Garton Property Ltd
Registered and domiciled in England and Wales
Registration number: 09089937
Registered office: County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN

Directors' report

for the year ended 31 March 2020

The directors present their report with the consolidated and individual financial statements for the year ended 31 March 2020.

Principal activities

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

Directors

The directors shown below have held office during the whole of the year from 1 April 2019 to 31 March 2020:

S Smyth (resigned on 29 May 2019)
E Hawkins
N O'Connor (appointed on 3 September 2019)

Directors' remuneration during the year is £nil. (2019: £nil)

COVID-19

The COVID-19 outbreak has developed rapidly in 2020 and has resulted in unprecedented actions being taken by Governments across the globe, which have had a significant adverse impact on large swathes of the economy.

At this stage, Halsey Garton Property Investments Limited is in communication with tenants to best understand the knock-on impact of COVID-19 on the business. At this time the business will be able to absorb impact on cash flow and continue for the foreseeable future. The directors continue to monitor the situation closely.

We will continue to follow the Government's and relevant sector specific bodies policies and advice to ensure we always protect the safety and health of our employees and customers.

We also refer to note 3 on the company as a going concern.

Directors' indemnities

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

Business structure

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



Additional disclosures

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

- Recommended dividend (Strategic report page 1)
- Financial risk management policies and objectives (Strategic report page 2)
- Information on exposure to price risk, credit risk, liquidity risk and cashflow risk (Strategic report page 2)
- Future developments in the business of the company (Strategic report pages 1-5)
- Post balance sheet events (financial statements page 24 and page 35).

Consolidated financial statements

The consolidated financial statements and supporting notes on pages 13 to 23 include the results for all Halsey Garton group companies as listed above.

Company financial statements

The company financial statements and supporting notes on pages 24 to 35 include the results for Halsey Garton Property Ltd only.

Going concern

After reviewing the company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of not less than 12 months from the date of approval of these financial statements. As at 31st March 2020 there were overall net current assets of £0.5m recorded in the accounts, mainly due to an increase in accrued income for the period 23rd March to 1st April compared to 18/19 from the immediate impact of COVID-19 on tenants.

The impact of COVID-19 has been felt by tenants within the properties held by Halsey Garton Property Investments Limited. At the time of producing these financial statements, the directors have a reasonable understanding of the immediate impact to the company of the pandemic, and that the company has adequate resources to continue in operational existence for the foreseeable future.

The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

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

Provision of information to auditor

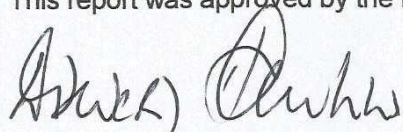
The directors confirm that:

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

Auditor

The auditor, UHY Hacker Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 17th Aug 2020 and signed on its behalf by:



Edward Hawkins, Director
 Halsey Garton Property Ltd
 Registered and domiciled in England and Wales
 Registration number: 09089937
 Registered office: County Hall, Penrhyn Road, Kingston Upon Thames, Surrey, KT1 2DN

**INDEPENDENT AUDITORS' REPORT
 TO THE MEMBERS OF HALSEY GARTON PROPERTY LIMITED**

Opinion

We have audited the financial statements of Halsey Garton Property Limited (“the parent company”) and its subsidiaries (the ‘group’) for the year ended 31 March 2020 which comprise the consolidated profit and loss statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company profit and loss statement, the company balance sheet, the company statement of changes in equity, the company statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice)

In our opinion:

- the financial statements give a true and fair view of the group’s and the parent company’s affairs as at 31 March 2020 and of the group’s loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Emphasis of matter – Investment property valuation

The COVID-19 virus has had significant impact over the value of investment properties and there is an increased estimation uncertainty over the property valuations. We concluded that the assumptions applied by management, which are supported by third party valuations, in arriving that the fair value of the Group’s property portfolio were appropriate, and that the resulting valuations were within a reasonable range.

**INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF HALSEY GARTON PROPERTY LIMITED**

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF HALSEY GARTON PROPERTY LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

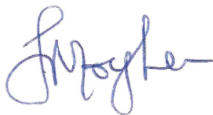
A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF HALSEY GARTON PROPERTY LIMITED

Use of our report

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



Jessica Moorghen (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young LLP

Chartered Accountants
Statutory Auditor

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London
E1W 1YW

Date: 21st August 2020

Halsey Garton Property Ltd

Consolidated profit and loss account

for year ended 31 March 2020

	Note	2020 £	2019 £
Turnover	7	17,690,149	16,239,754
Cost of sales		(1,166,249)	(1,315,190)
Gross profit		16,523,900	14,924,564
Administrative expenses		(280,442)	(344,319)
Net deficit on revaluation of investment properties	14	(34,050,000)	(17,722,762)
Operating (loss)/profit		(17,806,542)	(3,142,517)
Interest receivable and similar income	10	8,999	26,581
Interest payable and similar charges	11	(14,277,378)	(12,202,685)
(Loss)/profit on ordinary activities before taxation		(32,074,921)	(15,318,621)
Tax on profit on ordinary activities	12	(1,048,036)	(763,829)
(Loss)/profit for the financial year		(33,122,957)	(16,082,450)

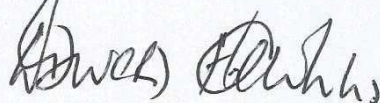
There is no other comprehensive income for the year (2019: £nil).

The accompanying notes form part of these financial statements.

Consolidated balance sheet
as at 31 March 2020

	Note	2020 £	2019 £
Fixed assets			
Investment property	14	267,950,000	302,000,000
Total fixed assets		<u>267,950,000</u>	<u>302,000,000</u>
Current assets			
Debtors due after one year	15	1,532,761	1,528,792
Debtors due within one year	15	634,276	418,474
Cash at bank and in hand		3,079,775	3,151,925
Total current assets		<u>5,246,812</u>	<u>5,099,191</u>
Creditors: amounts falling due within one year	16	(4,708,244)	(5,490,255)
Net current assets/(liabilities)		<u>538,568</u>	<u>(391,064)</u>
Total assets less current liabilities		<u>268,488,568</u>	<u>301,608,936</u>
Creditors: amounts falling due after one year	17	(233,998,021)	(233,995,432)
Net assets		<u>34,490,547</u>	<u>67,613,504</u>
Capital and Reserves			
Share capital	19	92,686,000	92,686,000
Fair value reserve	20	(60,925,010)	(26,875,010)
Profit and loss account		2,729,557	1,802,514
Total equity attributable to owners of the parent company		<u>34,490,547</u>	<u>67,613,504</u>

Approved by the Board on 18 Aug 2020 and signed on its behalf by:



Edward Hawkins, Director

The accompanying notes form part of these financial statements.

Halsey Garton Property Ltd

Consolidated statement of changes in equity
for the year ended 31 March 2020

	Share capital	Profit and loss account	Fair value reserve	Total
Note	£	£	£	£
Balance at 31 March 2018	69,426,000	1,762,202	(9,152,248)	62,035,954
Profit for the year and total comprehensive income	-	(16,082,450)	-	(16,082,450)
Transfer to fair value reserve	-	17,722,762	(17,722,762)	-
Issue of shares	23,260,000	-	-	23,260,000
Dividends paid	-	(1,600,000)	-	(1,600,000)
Balance at 31 March 2019	92,686,000	1,802,514	(26,875,010)	67,613,504
Loss for the year and total comprehensive income	-	(33,122,957)	-	(33,122,957)
Transfer to fair value reserve	20	-	34,050,000	(34,050,000)
Issue of shares		-	-	-
Dividends paid	13	-	-	-
Balance at 31 March 2020	92,686,000	2,729,557	(60,925,010)	34,490,547

The accompanying notes form part of these financial statements.

Consolidated statement of cashflows
for the year ended 31 March 2020

	Note	2020 £	2019 £
Net cash inflow from operating activities	9	15,391,333	15,894,624
Taxation paid		(1,195,104)	(542,284)
Net cash generated from operating activities		14,196,229	15,352,340
Investing activities:			
Interest received		8,999	26,581
Investment property acquisitions		-	(79,964,838)
Net cash inflow/(outflow) from investing activities		8,999	(79,938,257)
Financing activities:			
Interest paid		(14,277,378)	(12,202,685)
Dividends paid		-	(1,600,000)
Issue of ordinary share capital		-	23,260,000
New long term loans		-	55,040,000
Net cash (outflow)/inflow from financing activities		(14,277,378)	64,497,315
Net (Decrease) in cash and cash equivalents		(72,150)	(88,602)
Cash and cash equivalents at beginning of the year		3,151,925	3,240,527
Cash and cash equivalents at the end of the year		3,079,775	3,151,925

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2020

1. Company information

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

2. Basis of preparation

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

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

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

The Financial statements are presented in sterling (£).

3. Going concern

After reviewing the company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of not less than 12 months from the date of approval of these financial statements. As at 31st March 2020 there were overall net current assets of £0.5m recorded in the accounts. This relates mainly to accrued income for the period 25th March to 1st April 2020.

At the time of approving the financial statements, the directors have assessed the initial impact of COVID-19 on the business. While tenants within the investment portfolio have been impacted, the company has adequate resources to continue operational existence for the foreseeable future.

The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

4. Accounting policies

4.1 Basis of consolidation

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

4.2 Turnover

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

4.3 Recognition of income and expenditure

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

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

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

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

4.4 Investment properties

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

4.5 Loans between group companies

Loans from Surrey County Council are measured at amortised cost.

4.6 Leased assets – lessor

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

4.7 Current Taxation

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

4.8 Deferred Taxation

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

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

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

- Determined if leases entered into by the company are operating leases or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- Investment properties are professionally valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can ultimately only be reliably tested in the market itself.
- That there are unlikely to be sufficient capital gains in the foreseeable future to enable the utilisation of a potential deferred tax asset on property revaluations. This judgement has been made in light of prevailing property market conditions, the continued expansion of the property portfolio and our experience that significant capital transaction costs on purchase are not offset by increases in underlying property values in the early years after purchase.

6. Average number of persons employed

During the current and prior year the group did not employ any persons directly. (2019: None)

7. Turnover

Turnover, analysed by category was as follows:

	2020	2019
	£	£
Rents received from investment properties	17,189,329	15,343,949
Landlord services – service charges	336,556	360,843
Landlord services – property insurance	164,265	113,118
Dilapidation and other income	-	421,844
Total	<u>17,690,149</u>	<u>16,239,754</u>

8. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

	2020	2019
	£	£
Audit fees	15,000	14,080
Tax compliance services	10,925	8,915

Tax compliance fees are not paid to the Company's auditor.

9. Net cash inflow from operating activities

Reconciliation of operating loss to cash utilised in operations.

	2020 £	2019 £
Loss on ordinary activities before taxation	<u>(32,074,921)</u>	(15,318,621)
Interest payable	14,277,378	12,202,685
Interest receivable	(8,999)	(26,581)
Unrealised loss on revaluation of investments	34,050,000	17,722,762
Net (increase)/decrease in working capital	(848,156)	1,533,275
Net (increase) in lease incentives	(3,969)	(218,896)
Net cash inflow from operating activities	<u>15,391,333</u>	<u>15,894,624</u>

10. Interest receivable and similar income

During the year £8,999 (2018/19 £10,126) interest was receivable on cash balances held in the bank account.

	2020 £	2019 £
Interest on advanced payments	-	16,455
Bank interest	8,999	10,126
Total	<u>8,999</u>	<u>26,581</u>

11. Interest payable and similar charges

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

	2020 £	2019 £
Interest on loan	14,277,378	12,193,594
Bank charges	-	9,091
Total	<u>14,277,378</u>	<u>12,202,685</u>

Halsey Garton Property Ltd

12. Taxation

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

	2020	2019
	£	£
UK Corporation tax	959,413	763,829
Deferred tax	88,623	-
Tax on (loss)/profit on ordinary activities	<u>1,048,036</u>	<u>763,829</u>
Factors affecting the tax charge/(credit):		
	2020	2019
	£	£
(Loss)/profit on ordinary activities before taxation	(32,074,921)	(15,318,621)
Rate of tax for period	19%	19%
(Loss)/profit on ordinary activities before taxation multiplied by the rate of tax for period	(6,094,234)	(2,910,538)
Expenses not deductible for tax purposes	8,031,730	4,303,538
Income not taxable for tax purposes	(780,686)	(461,321)
Chargeable losses	(6,284,478)	(3,637,643)
Adjustments in respect of prior periods (current tax)	(130)	127,721
Adjustments in respect of prior periods (deferred tax)	-	-
Adjust closing deferred tax to average rate	-	531,740
Adjust opening deferred tax to average rate	(531,740)	(179,944)
Deferred tax not recognised	6,707,574	2,990,276
Tax on (loss)/profit on ordinary activities	<u>1,048,036</u>	<u>763,829</u>

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

Factors that may affect future tax charges: Halsey Garton Property Ltd has tax adjusted non-trade losses of £41,622 (2018: £41,622) available for carry forward against future non-trading profits.

13. Dividends

	2020	2019
	£	£
Paid during the year	-	1,600,000
To be declared post year end	-	1,600,000

14. Fixed assets – investment properties

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

The net deficit on revaluation of investment property arising of £34,050,000 as at 31 March 2020 has been debited to the profit and loss for the year and transferred to the fair value reserve. Had the properties not been revalued they would have been held at the historical cost of £328,875,010 (2018/2019: £328,875,010).

	2020 £	2019 £
Fair value at 1 April 2019	302,000,000	244,625,000
Additions	-	75,097,762
Disposals	-	-
Fair value adjustments	<u>(34,050,000)</u>	<u>(17,722,762)</u>
Fair value at 31 March 2020	<u>267,950,000</u>	<u>302,000,000</u>

15. Debtors

	2020 £	2019 £
<i>Debtors due after more than one year</i>		
Accrued income – unamortised lease incentive	<u>1,532,761</u>	<u>1,528,792</u>
Sub-Total	<u>1,532,761</u>	<u>1,528,792</u>
<i>Debtors due within one year</i>		
Trade debtors	625,521	409,867
Deferred tax asset	7,225	7,077
VAT	<u>1,530</u>	<u>1,530</u>
Sub-Total	<u>634,276</u>	<u>418,474</u>
Total	<u>2,167,037</u>	<u>1,947,266</u>

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

16. Creditors: amounts falling due within one year

	2020 £	2019 £
Amounts owed to parent entity	90,337	77,791
Corporation tax	552,067	525,873
Deferred tax liability	274,351	184,896
Deferred Income	2,800,732	3,458,731
Trade Creditors	-	36,400
VAT	686,414	816,239
Other creditors	<u>304,343</u>	<u>390,325</u>
Total	<u>4,708,244</u>	<u>5,490,255</u>

Halsey Garton Property Ltd

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

	2020	2019
	£	£
Amounts owed to parent entity	233,995,432	233,995,432
Total	<u>233,995,432</u>	<u>233,995,432</u>

Intragroup loans totalling £233,995,432 have been provided by Surrey County Council to Halsey Garton Property Ltd. These are maturity loans at interest rates ranging from 5.5% to 6.6% and all are due to be repaid in full, ten years from the original loan draw down. The carrying amount as at 31 March 2020 is included at amortised cost.

18. Deferred tax provision

	2020	2019
	£	£
Opening balance at 1 April 2019	177,820	177,820
Accelerated capital allowances	-	-
Deferred tax asset for unrelieved tax losses	88,623	-
Adjustments in respect of prior periods	-	-
Deferred tax asset for loss on revaluation	-	-
Closing balance at 31 March 2020	<u>266,443</u>	<u>177,820</u>

There is a potential deferred tax asset on property revaluations of £11,953,893 which has not been recognised in the accounts due to uncertainty about the availability of sufficient capital profits in the foreseeable future to utilise the losses against. The group incurred significant transaction costs at acquisition of the properties and its strategy is to hold properties for long term income returns and not capital gains. It is unlikely that any property will be sold until such time as it is beneficial to do so.

19. Called up share capital

Authorised, allotted and fully paid:

	2020	2019
	£	£
1 founders' shares of £1,000 each	1,000	1,000
92,685 ordinary shares of £1,000 each	92,685,000	92,685,000
Total	<u>92,686,000</u>	<u>92,686,000</u>

20. Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment property assets until they are sold or an asset is impaired. A potential deferred tax asset on revaluations of £11,953,893 has not been recognised in 2020 – see also note 18 above. The reserve is used to distinguish unrealised profits/(losses) from realised profits/(losses) which are held in the profit and loss account.

	Fair value reserve	
	2020	2019
	£	£
Reserve at 1 April 2019	(26,875,010)	(9,152,248)
Fair value adjustments (Note 14)	(34,050,000)	(17,722,762)
Deferred tax asset for loss on revaluation	-	-
Reserve at 31 March 2020	<u>(60,925,010)</u>	<u>(26,875,010)</u>

21. Leases

The minimum lease payments due to Halsey Garton group in future years are:

	2020	2019
	£	£
Not later than one year	16,026,630	16,841,563
Later than one year but not later than five years	65,275,646	66,734,654
Later than five years	113,419,643	135,205,740
Total	<u>194,721,919</u>	<u>218,781,957</u>

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

22. Related party disclosures

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

23. Post balance sheet events

The global economy was affected by the Covid-19 pandemic and the related market volatility has brought certain operational and financial impacts to our entity performance due to the partial or complete lockdown. However this has not lead to any significant post balance sheet events in these financial statements. The potential near-term impact of the developments on the group is discussed in the Strategic Report and note 3.

Halsey Garton Property Ltd

Company profit and loss account
for year ended 31 March 2020

	Note	2020 £	2019 £
Turnover		-	-
Cost of sales		-	-
Gross profit		<u>-</u>	<u>-</u>
Administrative expenses		(38,744)	(50,103)
Other operating income		-	-
Net deficit on revaluation of investments	13	(34,050,000)	(17,722,762)
Operating loss		<u>(34,088,744)</u>	<u>(17,722,865)</u>
Investment income	12	-	1,650,000
Interest receivable and similar income	9	14,267,872	12,183,990
Interest payable and similar charges	10	(14,277,378)	(12,193,662)
Loss on ordinary activities before taxation		<u>(34,098,250)</u>	<u>(16,132,537)</u>
Tax on loss on ordinary activities	11	832	-
Loss for the financial year		<u>(34,097,418)</u>	<u>(16,132,537)</u>

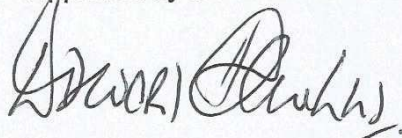
Company balance sheet

as at 31 March 2020

Company number: 09089937

	Note	2020 £	2019 £
Fixed assets			
Investments	13	31,760,992	65,810,992
Total fixed assets		31,760,992	65,810,992
Current assets			
Debtors due after more than one year	14	233,837,000	233,837,000
Debtors due within one year	14	8,755	8,606
Cash at bank and in hand		63,262	109,937
Total current assets		233,909,017	233,955,543
Creditors: amounts falling due within one year	15	(13,862)	(15,559)
Net current assets		233,895,155	233,939,984
Total assets less current liabilities		265,656,147	299,750,976
Creditors: amounts falling due after one year	16	(233,998,021)	(233,995,432)
Net assets		31,658,126	65,755,544
Capital and Reserves			
Share capital	18	92,686,000	92,686,000
Fair value reserve	19	(60,925,010)	(26,875,010)
Profit and loss account		(102,864)	(55,446)
Total equity attributable to owners of the parent company		31,658,126	65,755,544

Approved by the Board on *17 Aug 2020* and signed on its behalf by:



Edward Hawkins, Director

Halsey Garton Property Ltd

Company statement of changes in equity
for the year ended 31 March 2020

	Share capital	Profit and loss account	Fair value reserve	Total equity	
Note	£	£	£	£	
Balance at 31 March 2018	69,426,000	(45,671)	(9,152,248)	60,228,081	
(Loss) for the year and total comprehensive income	-	(16,132,537)	-	(16,132,537)	
Transfer to fair value reserve	19	-	17,722,762	(17,722,762)	-
Issue of shares	23,260,000	-	-	23,260,000	
Dividends paid	-	(1,600,000)	-	(1,600,000)	
Balance at 31 March 2019	92,686,000	(55,446)	(26,875,010)	65,755,544	
(Loss) for the year and total comprehensive income	-	(34,097,418)	-	(34,097,418)	
Transfer to fair value reserve	19	-	34,050,000	(34,050,000)	-
Issue of shares	-	-	-	-	
Dividends paid	12	-	-	-	
Balance at 31 March 2020	92,686,000	(102,864)	(60,925,010)	31,658,126	

Company statement of cashflows

for the year ended 31 March 2020

	Note	2020 £	2019 £
Net cash (outflow) from operating activities	8	(36,486)	(44,013)
Taxation paid		(683)	-
Net cash generated from operating activities		(37,169)	(44,013)
Investing activities:			
Interest received		14,267,872	12,183,990
Dividends received		-	1,650,000
Purchase of investments		-	(23,260,000)
Issue of new long term loans		-	(55,040,000)
Net cash inflow/(outflow) from investing activities		14,267,872	(64,466,010)
Financing activities:			
Interest paid		(14,277,378)	(12,193,662)
Dividends paid		-	(1,600,000)
Issue of ordinary share capital		-	23,260,000
New long term loans		-	55,040,000
Net cash (outflow)inflow from financing activities		(14,277,378)	64,506,338
Net (decrease)/increase in cash and cash equivalents		(46,675)	(3,685)
Cash and cash equivalents at beginning of the year		109,937	113,622
Cash and cash equivalents at the end of the year		63,262	109,937

Notes to the company financial statements

for the year ended 31 March 2020

1. Company information

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

2. Basis of preparation

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

The financial statements have been prepared on a historical cost basis except for the modification to a fair value basis for investments as specified below. The Financial statements are presented in sterling (£).

3. Going concern

After reviewing the company's forecast and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

At the time of approving the financial statements, the directors have assessed the initial impact of Covid-19 on the business. While tenants within the investment portfolio have been impacted, the company has adequate resources to continue operational existence for the foreseeable future.

The company therefore continues to adopt the going concern basis in preparing its financial statements.

4. Accounting policies

4.1 Recognition of income and expenditure

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

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

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

4.2 Investments in subsidiaries

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

4.3 Loans between group companies

Loans between group companies are measured at amortised cost.

4.4 Current Taxation

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

4.5 Deferred Taxation

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

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

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

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

6. Average number of persons employed

During the year Halsey Garton Property Ltd did not employ any persons directly. (2019: None)

7. Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after:

	2020	2019
	£	£
Audit fees	5,000	4,224
Tax compliance services	2,270	2,165

Tax compliance fees are not paid to the Company's auditor.

Halsey Garton Property Ltd

8. Net cash (outflow) from operating activities

Reconciliation of operating loss to cash utilised in operations.

	2020 £	2019 £
(Loss) on ordinary activities before taxation	<u>(34,098,250)</u>	<u>(16,132,537)</u>
Interest payable	14,277,378	12,193,662
Interest receivable	(14,267,872)	(12,183,990)
Dividends received	-	(1,650,000)
Unrealised loss on revaluation of investments	34,050,000	17,722,762
Net decrease in working capital	2,258	6,090
Net cash (outflow) from operating activities	<u>(36,486)</u>	<u>(44,013)</u>

9. Interest receivable and similar income

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

	2020 £	2019 £
Interest on loans	14,277,378	12,183,990
Total	<u>14,277,378</u>	<u>12,183,990</u>

10. Interest payable and similar charges

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

	2020 £	2019 £
Interest on loans	14,267,872	12,193,594
Bank charges	0	68
Total	<u>14,267,872</u>	<u>12,193,662</u>

11. Taxation

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

	2020 £	2019 £
UK Corporation tax	-	-
Deferred tax	(832)	-
Tax on loss on ordinary activities	<u>(832)</u>	<u>-</u>

Halsey Garton Property Ltd

	2020	2019
Factors affecting the tax charge/(credit):		
	£	£
(Loss) on ordinary activities before taxation	(34,098,250)	(16,132,537)
Rate of tax for period	19%	19%
(Loss) on ordinary activities before taxation multiplied by the rate of tax for period	(6,478,668)	(3,065,182)
Expenses not deductible for tax purposes	7,251,041	3,828,647
Income not taxable for tax purposes	(780,686)	(461,322)
Exempt ABGH distributions	-	(313,500)
Chargeable gains/(losses)	(6,284,478)	(3,637,643)
Adjustment in respect of prior periods	-	-
Group relief surrendered	8,313	11,357
Adjust closing deferred tax to average rate	(597,613)	597,613
Adjust opening deferred tax to average rate	-	(214,703)
Deferred tax not recognised	6,881,259	3,254,733
Tax on loss on ordinary activities	<u>(832)</u>	<u>-</u>

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

Factors that may affect future tax charges:

The company has tax adjusted non-trade losses of £41,622 (2018/19: £41,622) available for carry forward against future non-trading profits.

12. Dividends

From Halsey Garton Property Ltd to Surrey County Council:

	2020	2019
	£	£
Paid during the year	-	1,600,000
To be declared post year end	-	1,600,000

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

	2020	2019
	£	£
Received during the year	-	1,650,000
To be declared post year end	-	1,650,000

Halsey Garton Property Ltd

13. Fixed assets – investments

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

The net deficit on revaluation of investments arising of £34,050,000 as at 31 March 2020 has been debited to the profit and loss for the year and transferred to the fair value reserve.

	Investments in subsidiaries	
	2020	2019
	£	£
Valuation at 1 April 2019	65,810,992	60,273,754
Additions	-	23,260,000
Fair value adjustments	(34,050,000)	(17,722,762)
Disposals	-	-
Valuation at 31 March 2020	<u>31,760,992</u>	<u>65,810,992</u>

Additions totalling £nil in 2019/20 represent additional capital invested in Halsey Garton Property Investments Ltd.

14. Debtors

	2020	2019
	£	£
<i>Debtors due after more than one year</i>		
Amounts owed by subsidiary undertaking	<u>233,837,000</u>	<u>233,837,000</u>
Sub-Total	<u>233,837,000</u>	<u>233,837,000</u>
<i>Debtors due within one year</i>		
Deferred tax asset	7,255	7,076
VAT	<u>1,530</u>	<u>1,530</u>
Sub-Total	<u>8,785</u>	<u>8,606</u>
Total	<u>233,845,785</u>	<u>233,845,606</u>

Included within long term debtors are intragroup loans totalling £233,837,000 provided to Halsey Garton Property Investments Ltd. These are revolving facility, maturity loan agreements at interest rates ranging from 5.5% to 6.6%. All are due to be repaid in full ten years from the original loan draw down. The carrying amount as at 31 March 2020 is included at amortised cost.

15. Creditors: amounts falling due within one year

	2020	2019
	£	£
Amounts owed to group companies	2	4,763
Other creditors	<u>13,860</u>	<u>10,796</u>
Total	<u>13,862</u>	<u>15,559</u>

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

	2020 £	2019 £
Amounts owed to parent entity	<u>233,995,432</u>	<u>233,995,432</u>
Total	<u>233,995,432</u>	<u>233,995,432</u>

Intragroup loans totalling £233,995,432 have been provided by Surrey County Council to Halsey Garton Property Ltd. These are maturity loans at interest rates ranging from 5.5% to 6.6% and all are due to be repaid in full, ten years from the original loan draw down. The carrying amount as at 31 March 2020 is included at amortised cost. All loans are due in more than 5 years.

17. Deferred tax provision

	2020 £	2019 £
Opening balance at 1 April 2019	(7,076)	(7,076)
Deferred tax asset for unrelieved tax losses	(149)	-
Deferred tax asset for loss on revaluation	-	-
Closing balance at 31 March 2020	<u>(7,255)</u>	<u>(7,076)</u>

There is a potential deferred tax asset on property revaluations of £11,953,893 which has not been recognised in the accounts due to uncertainty about the availability of sufficient capital profits in the foreseeable future to utilise the losses against. The group incurred significant transaction costs at acquisition of the properties and its strategy is to hold properties for long term income returns and not capital gains. It is unlikely that any property will be sold until such time as it is beneficial to do so.

18. Called up share capital

Authorised, allotted and fully paid:

	2020 £	2019 £
1 founders' shares of £1,000 each	1,000	1,000
92,686 ordinary shares of £1,000 each	<u>92,686,000</u>	<u>92,686,000</u>
Total	<u>92,686,000</u>	<u>92,686,000</u>

19. Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment property assets until they are sold or an asset is impaired. A potential deferred tax asset on revaluations of £11,953,893 has not been recognised in 2020 – see also note 18 above. The reserve is used to distinguish unrealised profits/(losses) from realised profits/(losses) which are held in the profit and loss account.

	Fair value reserve	
	2020 £	2019 £
Reserve at 1 April 2019	(26,875,010)	(9,152,248)
Fair value adjustments (Note 13)	(34,050,000)	(17,722,762)
Deferred tax asset for loss on revaluation	-	-
Reserve at 31 March 2020	<u>(60,925,010)</u>	<u>(26,875,010)</u>

20. Related party disclosures

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

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

21. Post balance sheet events

The global economy was affected by the COVID-19 pandemic and the related market volatility has brought certain operational and financial impacts to our entity performance due to the partial or complete lockdown. However this has not lead to any significant post balance sheet events in these financial statements. The potential near-term impact of the developments on the group is discussed in the Strategic Report and note 3.

Following the year end, Halsey Garton Property Limited sold the Ordinary Share holding in Halsey Garton Residential Limited and, Halsey Garton Developments Limited, to Surrey County Council.



Halsey Garton Property Limited & Halsey Garton Property Investments Limited

Report to the Board
Year ended 31 March 2020

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Other matters	7
Summary, adjustments and audit report	8
Appendix 1 – Management letter points	

The matters raised in this Report to the Board are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for any other purpose.

Introduction

Halsey Garton Property Limited and its subsidiary, Halsey Garton Property Investments Limited (“the group” or “HGP”)

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of the Group for the year ended 31 March 2020.

This report provides an update to the significant matters raised in our Audit Service Plan, which was provided to the Group on 28 April 2020.

This report provides an update to the matters discussed at that meeting and the other matters which arose during the course of our audit.

Audit scope

Our terms of engagement are set out in our engagement letter. That letter sets out our audit responsibilities and their limitations and the responsibilities of the directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage

and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Communication with those charged with governance

International Standard on Audit 260 “Communication of audit matters with those charged with governance” (“ISA 260”) is an auditing standard designed to ensure that there is effective two-way communication between auditors and those charged with governance of the Group. In the context of ISA 260 “those charged with governance” means the Board of Directors of the Group.

Matters relating to the planning, conduct and results of the audit are communicated to those charged with governance of the Group on a

sufficiently prompt basis to enable the recipients to take appropriate action.

During the audit, regular communications were made by us to Paul Forrester and Cundasamy Nursimloo at HGP. These communications were generally made informally, either by telephone or email.

After the completion of the audit, important matters requiring the attention of Directors are communicated by way of this report.

Audit independence

In accordance with the requirements of ISA 260 and the Ethical Standard issued by the Financial Reporting Council, we confirm the matters set out below.

We discussed the specific threat to you posed with our involvement in the services provided and how we mitigate such threats in our Audit Service Plan. We have not identified any further threats during the course of the audit.

We confirm that: We are auditors of Halsey Garton Property Ltd and Halsey Garton Property Investments Ltd;

The audit is subject (if selected as part of a sample) to our internal independent quality control procedures, and reviews by the ICAEW as part of their inspections.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact:

Jessica Moorghen

t: +44 (0) 20 7216 4670

e: j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Group. It is part of our continuing communication of audit matters with those charged with the governance of the Group and, accordingly is addressed to the Board.

It is not intended to include every matter that came to our attention. For these reasons, we

believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

UHY Hacker Young
August 2020

Acknowledgement

We wish to thank Paul Forrester and Cundasamy Nursimloo for their helpfulness and co-operation during the course of the audit process.

Audit status

Audit structure

We have carried out the audit of the Group. The audit working papers have been reviewed by the audit manager and audit partner. Any significant issues arising during our audit were discussed with Paul Forrester and have been included in this report if deemed necessary.

The audit was planned and conducted to concentrate on the high risk areas in the financial

statements. The key audit issues arising in these areas are explained further on Appendix I below.

The accounting systems were documented and the controls over those systems evaluated. Using these assessments we designed and conducted detailed tests of transactions and balances.

Current position

The audit of the Group is substantially complete. All queries arising during the audit were dealt with as the audit progressed. There were no limitations on the scope of our audit work completed to date.

There are, however, at the time of writing some outstanding unresolved audit matters which are

set out below and which may or may not have an impact on our audit opinion on the Group financial statements.

We expect to be in a position to sign our audit report as soon as practicable after clearing the outstanding matters.

Outstanding audit matters:

Signed Letter of Representation from the directors;

Signed Directors' Report;

Signed Statement of Financial Position and;

Completion of our subsequent events review to the date of our audit report.

Identified key risk areas and our responses

We have identified the following key risk areas as part of our audit planning processes. During our audit we focused on these areas, in addition to our other normal audit procedures, and we set out below our comments and the results of our testing.

Management override of controls (all companies)

Explanation of risk

Auditing standards require that the risk of management override of controls should be considered to be a significant risk for all audit engagements.

Audit response to risk

We will review a sample of transactions in the year for unusual items outside the ordinary course of

business and also test journals raised to ensure that such entries are relevant to the Group's business.

Outcome

Audit testing of a sample of journals posted in the year and other significant transactions did not indicate any instances of management override of controls occurring in the accounts.

Revenue recognition (Halsey Garton Property Investments only)

Explanation of risk

Auditing standards require that revenue recognition is considered a significant risk unless it may be appropriately rebutted. There is a risk that revenue is incomplete and that it has not been accurately recorded or calculated.

Management should review the status of all significant transactions close to the year end to ensure that all are accounted for in the appropriate period. Preparation of rental income proof in total workings is a key management control.

Audit response to risk

We ended up performing substantive testing because there were several rent reviews during the year which meant that we could not carry out a proof in total test. We will also perform analytical review procedures seeking explanations for significant movements from expectations.

We will also review the assessment made in the application of the correct cut-off processes.

Outcome

There were no errors noted in the testing for both completeness and accuracy of revenue. All items sampled were satisfactory tested with no issues noted. As such we believe that revenue is materially correct.

Investment Property Valuations (Halsey Garton Property Investments Ltd only)

Explanation of risk

There is a risk that investment properties are not reflected at fair value at the year-end. Management procedures should be in place to determine the market value of the property portfolio at the year-end date.

Audit response to risk

We will review the property valuations supplied to us from yourselves and obtain a third party valuation review as per instructed by the group auditors Grant Thornton. We will assess the reasonableness of the assumptions made and the accuracy of the calculation. We will also check that the revaluation adjustments have been accurately accounted for.

Outcome

Assessing the fair value of the investment property portfolio is a complex exercise and as instructed by the group auditors Grant Thornton, we obtained a third party valuation review.

As part of our audit procedures, we assessed whether the valuers are independent of the Group and considered the reliability and competency of the valuers.

Alongside our valuation specialist, we discussed and challenged key inputs and assumptions with the valuers and management with reference to independent market data including COVID-19 considerations.

We also assessed the accuracy of the tenancy schedules and reconciled the rental values used in the valuations to the tenancy schedule, including tracing a sample back to the underlying lease agreement.

We concluded that an adjusting journal of £600k was to be raised to amend the value of the Redditch property and a non-adjusting journal (£750k) was also raised in respect of the Salford property. Following these, we believe that the investment property valuations are materially correct.

In addition, we have also reviewed the necessary FRS102 disclosures and confirm that these are reasonable and complete.

While we note the increases uncertainty in relation to the property valuation as a result of COVID-19, we considered the assumptions applied in arriving at the fair value of the Group's property portfolio to be appropriate.

Valuation of investment in subsidiary (HGP Ltd only)

Explanation of risk

There is a risk that the investment in the Halsey Garton Property Investments Ltd subsidiary is not materially correct.

Audit response to risk

We will carry out a review of the calculation on which the investment valuation is based, and assess the any impairments required following the valuation of the underlying properties within the subsidiary.

Outcome

HGP Ltd sole investment is its holding in Halsey Garton Property Investments Ltd which is determined with reference to the underlying property assets held by the subsidiary.

We ensured that the carrying amount of the investment does not exceed the recoverable amount, which is primarily dependent on the performance of the investment property.

The investment valuation has only changed in line with the property fair value adjustments which has been tested as per the investment property valuation risk noted above,

Going Concern (both entities)

Explanation of risk

As the company is profit making, with healthy cash reserves at the year-end, going concern would not usually be considered a risk to an entity in this financial position.

However, due to the economic uncertainty surrounding COVID-19, we have highlighted it as a risk to consider in detail as this may have a significant impact on the company's ability to continue as a going concern.

Audit response to risk

We will discuss in detail with the directors, the steps being taken to ensure that the company will continue as a going concern. We will request and review the cash flow forecasts of the company for the next 12 months and assess the reasonableness of the assumptions made. We will also perform a sensitivity analysis on the cash flow forecasts, taking into consideration any key tenants.

Outcome

We assessed the company's ability to continue their operations until the end of August 2021. We have reviewed the cash flow forecasts to end of August 2021 and compared actual results from April, May and June 2020 to those predicted in the forecast.

The key assumptions made in the cash flow forecast were reviewed and deemed reasonable.

We also performed a sensitivity analysis on the key assumptions to ensure that in a reasonable worst case scenario, the company would continue to have sufficient cash to continue in their operations for the 12 months from signing the audit report.

It was concluded that Management's plans are considered feasible and there is no reason to doubt the going concern assumption.

Opening balances (both entities)**Explanation of risk**

This is a first year audit, under ISA 510- Initial Engagements; there is limited assurance over the accuracy of the brought forward balances.

Audit response to risk

We will vouch opening balances to prior year signed accounts and ensure all audit journals have been posted correctly. We will complete detailed work programmes tailored to gaining assurance on the accuracy of the brought forward balances. We will review records, as well as accounting and control procedures in the preceding period. We will also consult with the previous auditor and review (with their permission) their working papers and relevant management letters.

Outcome

During our testing of the brought forward balances, it was identified that retained earnings did not agree to the prior year signed accounts. Once this was corrected, this affected the corporation tax payable and the deferred tax. This error was amended by the client as part of a late client journal, which was subsequently reviewed and deemed reasonable.

Other matters

Internal controls

Our audit is tailored to our assessment of the risk of material misstatement, taking into account the inherent risk of error or fraud and our assessment of the effectiveness of controls in eliminating or reducing those risks.

We cannot examine every activity and procedure within the Group, nor can we substitute for management responsibility to maintain adequate controls at all levels of business.

Accounting policies

We have reviewed the accounting policies adopted by the Group in the preparation of its financial statements and consider that they are appropriate and suitable for the Group's particular circumstances.

As required by FRS 102, the Board of Directors should formally review the Group's accounting

Our work cannot therefore, be expected to identify all weaknesses in the Group's procedures and systems. However, we will gladly discuss with you an extension of our work to review in more depth any aspect of the business which potentially concerns you.

policies and treatments to ensure that they remain the most appropriate to the Group's particular circumstances for the purposes of giving a true and fair view. We suggest that the Board of Directors should minute this discussion.

Significant subsequent events

In March 2020, many countries across the global entered into widespread lockdown of businesses and life as we know it. The spread of COVID-19 has caused significant volatility in the UK economy and as such there is significant uncertainty around the full impact and duration of business disruptions related to the pandemic. The impact of COVID-19 on the Group's ability to continue as a going concern has been concerned in detail during our going concern review, with the conclusion being that Management's plans are considered feasible and there is no reason to doubt the going concern assumption.

Consideration of fraud

We have discussed fraud with Paul Forrester and Cundasamy Nursimloo.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

It was confirmed that:

There have been no instances of fraud during the year; and

Those charged with governance of the Group consider there to be a low risk of fraud occurring.

Summary, adjustment and audit report

Audit adjustments agreed with management

We received the draft trial balances for the Group from Cundasamy Nursimloo in accordance with the audit timetable.

During the course of the audit, small adjustments were necessary in order to facilitate the preparation of the statutory financial statements, including some reclassifications of balances for statutory presentation purposes.

Where we have proposed reclassifications of balances for disclosure purposes these

amendments were reviewed and agreed by Paul Forrester.

Late adjustments provided by management, mainly in order to correct the brought forward balances, unrecorded accruals and income were reviewed as part of our audit process and have been agreed and processed in the financial statements.

Unadjusted items

During the course of our audit we identified some non-material items which have not been adjusted for in the financial statements.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be

undertaken prior to finalisation of the Group accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Audit report

We propose issuing an unqualified audit report on the financial statements of the Group for the year ended 31 March 2020.

Remaining timetable

We are in a position to finalise the statutory accounts subject to the outstanding matters noted on page 3 of this report.

Appendix 1

Management letter points

We wish to draw your attention to the following matters that arose during the course of our audit of the Company's accounts for the year ended 31 March 2020.

Areas	Observations	Recommendations
Accounting system and software	The Company's management accounts are maintained on a cashbook/ 'extended trial balance' basis. No accounting software is currently used to maintain the Company's accounting records. There was also the use of 'lump sum' journals in some areas where more detailed transactions should have been recorded. This made it more difficult and time consuming than it should be to trace through some accounting entries and to be able to easily understand the transactions.	<p>We recommend that the accounts are maintained on a simple off the shelf accounting software package (such as Xero or Quickbooks). This will help ensure that there is a clear audit trail for all of the accounting entries processed and the detail behind all the balances and transaction can then easily be viewed and understood. These software packages are fully cloud based and therefore online remote access can be granted to various parties, as read only where required, such as to the directors and auditors.</p> <p>The software packages can also download data from various sources, including your bank accounts which will ensure that the management accounts process is more efficient. Supporting documents can be included on the software packages to make it easier to access and understand the transactions.</p> <p>We recommend that monthly management accounts, in sufficient detail, be prepared, reviewed and approved by the directors. This should include more detailed and regular analysis/ reconciliations of the foreign exchange trading.</p>
Late client journals	We received several late client journals subsequent to the initial trial balance. We appreciate that the audit took place close to the year end, however there was a significant amount of time spent reviewing the new schedules provided and updating several documents such as materiality.	We recommend that all journals should be processed before sending us the trial balance. Any supporting schedules should be traced back to the trial balance to ensure that the balances agree.

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Audit and Governance Committee
26 November 2020

Report of the Governance Review Task Group

Purpose of the report:

The report summarises the work undertaken by, and recommendations of the Governance Review Task Group, which was established by the Audit and Governance Committee to evaluate the effectiveness of the Council's scrutiny function.

Introduction:

1. The Governance Review Task Group was established by the Audit and Governance Committee on 26 September 2019, following Council's approval of a new scrutiny model at its Annual General Meeting (AGM) in May 2019 and a discussion at the Select Committee Chairman's Group, which noted the Audit and Governance Committee's role in facilitating the oversight of the Council's Select Committees.
2. The task group was chaired by David Harmer, and consisted of the following Members: Keith Witham, Stephen Cooksey, Peter Szanto and Edward Hawkins. It met on ten occasions between June and October 2020.
3. To ensure that it gained as detailed a view as possible, it heard evidence from the following Members and officers:
 - a. Tim Oliver, Leader of the Council.
 - b. Mel Few, Cabinet Member for Finance.
 - c. Kay Hammond, Chairman of the Children, Families, Lifelong Learning and Culture Select Committee.
 - d. Nick Harrison, Chairman of the Resources and Performance Select Committee.
 - e. Bernie Muir, Chairman of the Adults and Health Select Committee.
 - f. John O'Reilly, Chairman of the Communities, Environment and Highways Select Committee.
 - g. Chris Botten, Chairman of the Select Committee Chairman's Group.
 - h. Joanna Killian, Chief Executive.
 - i. Leigh Whitehouse, Executive Director for Resources.

j. Simon White, Executive Director for Adult Social Care.

The task group agreed a series of questions, based on the *Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities*, published by the Ministry of Housing, Communities and Local Government in May 2019 and the *Centre for Public Scrutiny's*, (now called *Centre for Governance and Scrutiny*) *Evaluation Framework*, to examine the effectiveness of the Council's scrutiny function.

These questions, relevant discussions and recommendations are detailed in the report.

It was also agreed that members of the task group should attend Select Committee meetings where possible and provide feedback to assist the task group in its deliberations.

Questions and summary of discussions:

4. Is scrutiny operating as a strategic function; making an impact and is it valued by the Council?

4.1 The task group heard evidence that scrutiny had become more valued by Members and officers and that it had made a positive impact on decisions and policy development at Surrey County Council.

4.2 The task group noted that Select Committee chairmen were pleased that their meetings were attended by the relevant Cabinet Member and Executive Director, as their views were critical in driving effective scrutiny. The task group was also encouraged by the commitment to scrutiny by Members and senior officers and stressed that they should continue to attend Select Committee meetings.

4.3 In response to the comments by the Chairman of the Select Committee Chairman's Group that there should be a standing agenda item on scrutiny at each Council meeting, the task group noted that it would be beneficial to allow Select Committee chairmen to update Members on their committee's work at each Council meeting. This would allow Members the opportunity to ask questions; suggest scrutiny topics with the aim to encourage strategic Member direction; and encourage further transparency of Select Committee work.

4.4 The task group was pleased to note the following comments by the Chief Executive:

- (i) When compared to the Centre for Governance and Scrutiny Best Practice Model, the Council's scrutiny function had shown great improvement.

- (ii) There was now coherent forward planning between Select Committees and senior officers.
- (iii) With reference to future work programmes, there was now a higher level of awareness to include scrutiny input in the early stages of important strategic decisions.
- (iv) There were examples where scrutiny had collaborated with the council and communities to develop and add value to policies.

4.5 The task group noted that the value of Select Committee involvement in the Council's governance at an early stage must continuously be promoted. Scrutiny should not be seen as an inconvenience in the momentum of the Council's decision-making, and early inclusion of Member scrutiny in the process would maximise the benefits for residents and the Council as a whole.

4.6 The Leader of the Council was of the opinion that there had been a considerable improvement in scrutiny; the role profile and performance of Select Committees had increased; and the establishment of task and finish groups had improved the effectiveness of Select Committees.

5. Do Members understand their roles and responsibilities within a Select Committee?

5.1 The task group acknowledged the importance of frequent Member training and briefings to aid the understanding of roles and responsibilities within a Select Committee.

5.2 Evidence from Members and officers indicated that members of Select Committees understood their scrutiny responsibilities and the task group was pleased to note that Members treated scrutiny as a valued function of the Council.

5.3 However, the task group noted with concern that Member participation at Select Committee meetings was not always satisfactory. When appointed to a Select Committee, a Member should receive a complete overview of a Select Committee's processes, remit and the time commitments required to encourage more participation.

5.4 The task group noted examples of Members spending longer than necessary on issues that were not necessarily part of the discussion remit and emphasised the important role which strong and focussed chairmanship plays in this regard.

6. **Is scrutiny activity happening in a creative and inclusive way?**

6.1 The task group heard positive evidence from Members on the role of the Select Committee Chairman's Group in that it provided an opportunity to share good practice.

6.2 The Chief Executive noted that senior officers felt that scrutiny was now less reactive and more proactive and there had been thoughtful and valuable dialogue when considering key topics.

6.3 The Chairman of the Adults and Health Select Committee highlighted the importance of the Select Committee's consideration of a resident's experience when discussing an item. The task group agreed that reports should provide Members with an understanding of how a resident interacts with a service and how a proposed change would change it.

6.4 The task group was pleased to note that the Children, Families, Lifelong Learning and Culture Select Committee visited key locations and engaged with front line staff. The benefits of Member direct engagement were supported and it was proposed that practical information gathering visits are embedded into the council's scrutiny practice as a method of understanding how a service is delivered to residents.

6.5 Further to this, where appropriate, the Task Group supported Select Committees engaging with different relevant communities to hear a diverse range of experiences via evidence gathering sessions. This would aid Members to understand differing issues arising from, for example, different geographical areas or social groups across the county when considering a scrutiny topic.

6.6 The task group were concerned that Members that had an interest in a topic, but were not a part of the Select Committee's membership, were unable to take part in discussions. However, it was later noted that task groups allowed external Members to co-opt into meetings when appropriate and that there were numerous examples of this taking place since May 2019. All Members can submit questions to a Select Committee for a response and suggest topics for inclusion in meeting agenda.

7. **Do all Members have the skills and confidence to be great scrutineers?**

7.1 The task group heard evidence that whilst Select Committee Chairmen were satisfied that Members understood the remit of Select Committees, further training opportunities should be made available across the scrutiny function. For instance, not all Members were aware that there was a training budget and the task group proposed that an email be circulated to all Members to remind them of the opportunity to request relevant scrutiny training.

7.2 The task group noted with concern that where scrutiny training opportunities had been made available to Members, attendance was lower than expected. It was important that Members attended training when available as the importance of the benefits of improving Members' skills and confidence through training could not be emphasised enough. It was, however, noted that attendance at training sessions and seminars had increased since the implementation of virtual sessions.

7.3 The task group was pleased to note that in certain instances focused training was provided to Members on specific topics, e.g. training to the Resource and Performance Select Committee on the Treasury Management Strategy.

7.4 The comments by the Chairman of the Select Committee Chairman's Group that Members could enhance their scrutiny experience by becoming involved in task and finish groups were supported.

7.5 With reference to the induction for Members when appointed to a Select Committee, the task group noted that Members could sometimes become overwhelmed with the amount of information they received, and proposed that an initial overview induction should be followed by a more focused induction after Members had settled into their roles. This would allow Members to become more familiar with the Council's processes and understand where they may need further training and support. Refresher training should also be provided on a regular basis where appropriate.

8. Is the current scrutiny structure and support appropriate and adequate for the Council and its ambitions?

8.1 The task group was pleased to note that support and resources to the scrutiny function had improved significantly and that there was now six full time equivalent (FTE) officers available for support.

8.2 Whilst the task group expressed concern that the scrutiny structure had changed frequently in the past, it was agreed with the Chief

Executive that the current model suited the Council structure at the moment and that changes should not be proposed in the foreseeable future.

- 8.3 The Chairmen of the Children, Families, Lifelong Learning and Culture Select Committee and the Communities, Environment and Highways Select Committees noted that having two vice-chairmen on a committee who could chair task groups, was a positive step.
- 8.4 The task group heard evidence that the number of scheduled formal meetings to scrutinise specific topics was often not enough, which led to meetings becoming too long, which in turn had an impact on Members' focus and attention. The task group therefore supported the Chairman's prerogative of scheduling additional meetings where this format was the most appropriate mechanism to allow for appropriate consideration of topics. This was also supported by the Leader of the Council.
- 8.5 The Chairman of the Select Committee Chairman's Group stressed that it was important that Select Committees continue to have the resources to support the main committees and task and finish groups.
- 8.6 The task group believed where possible, all Select Committee members should attend committee pre-meetings. This would allow Members to receive a better understanding of a subject, focus key lines of enquiry and consider recommendations for the main Select Committee meeting.
- 8.7 Members should be reminded that support relating to Select Committee matters was available from the dedicated scrutiny officers and committee assistants.

Gap analyses

To complement the task group's deliberations and recommendations, and to ensure that the Council's Scrutiny function was fit for purpose, gap analyses were done with the principles and recommendations in the *Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities*, published by the Ministry of Housing, Communities and Local Government and the Centre for Governance and Scrutiny's *Scrutiny Evaluation Framework*. These are attached as **Appendices 1 and 2**.

Recommendations:

1. Senior officers and Cabinet Members should continue to attend and support Select Committee meetings where possible.
2. A standing item on scrutiny should be included on each Council meeting agenda which will allow Chairmen of Select Committees to provide an update on their scrutiny work.
3. When appointed to a Select Committee, a Member should receive a complete overview of a Select Committee's processes and remit as well as the time commitments required from Members. Further to this, Members should be provided with a more detailed induction after settling into their roles. Refresher training should also be provided on a regular basis.
4. Reports to the Select Committee, alongside Members' own research and evidence gathering, should provide Members with an understanding of our residents' experience of a service and how, for example, a proposed change would affect them.
5. The benefits of Member direct engagement were supported and it was proposed that practical information gathering visits are embedded into the council's scrutiny practice as a method of understanding how a service is delivered to residents.
6. The current Select Committee structure should remain in place and not be changed at the Annual Council meeting in May 2021.
7. Select Committee Members should continue to prioritise attendance of Select Committee pre-meetings.
8. Members of Select Committees should be reminded of the dedicated support available from the allocated Scrutiny Officers and Democratic Services Assistants.
9. In the event that unplanned scrutiny by Members is required, discussions should be held to decide the best way to scrutinise a topic outside of the normal Select Committee meeting schedule.
10. Where appropriate, task and finish groups should continue to be appointed to consider and report on scrutiny matters.
11. The principles and recommendations within appendices 1 and 2 identified as areas for improvement should be added to a scrutiny improvement plan for 2021/22.

Reasons for recommendations:

These recommendations will build on and help further embed the improvements realised during 2019/20 and ensure the continuing contribution of Select Committees to Council decision making.

Next steps:

The Chairman of the Audit and Governance Committee to present the report and recommendations of the Governance Task Group to the Full Council meeting on 8 December 2020.

Report contact: Joss Butler, Committee Manager

Contact details: joss.butler@surreycc.gov.uk

Desktop Gap Analysis based on Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities, published by the Ministry of Housing, Communities and Local Government in May 2019

Statutory Guidance	Current SCC Position	Add to Improvement Plan?
1. Does scrutiny have a clear role, function and focus?	Yes. Clear role set in the council's constitution.	×
2. Are there steps to ensure early and regular engagement between the Executive and scrutiny?	Yes. Each Select Committee Chairman has regular, informal liaison meetings. Each Cabinet Member attends Select Committee meetings. The Leader comes to the Chairmen and Vice-Chairmen's Group as necessary as well	×
3. Is disagreement between scrutiny and the Executive effectively managed? Is there an Executive/Scrutiny protocol?	Disagreement rare. No protocol. Call-in used appropriately.	✓
4. Does scrutiny have the necessary support, specifically designated scrutiny officers?	Yes. The scrutiny function is supported by a 6 FTE team. Further support comes from senior officers within the council and, where appropriate, external training.	×
5. Are there steps in place to ensure impartial advice from officers?	Yes. Member/Officer Protocol in the council's constitution.	×

6. Is the role of scrutiny communicated to the wider authority and the public?	Not actively. Area for improvement.	✓
7. Does Full Council play a role in scrutiny?	Not routinely. Area for improvement.	✓
8. Are members offered induction training when they are appointed? Is this followed up with relevant ongoing training?	Yes. Training provided internally and externally. Planning underway for post-election induction in 2021.	✓
9. Are external providers used for member training?	Yes. CfPS and SEE have provided training in a number of areas.	×
10. Do scrutiny committees use outside expertise, specifically technical expertise?	Developing a broader approach to evidence gathering. Use of technical expertise not typical.	✓
11. Do scrutiny committees have access to all relevant information held by the Council?	Yes.	×
12. Do scrutiny committees have forward work plans?	Yes.	×
13. Do scrutiny committees ensure that they look at the right topics, in the right way, at the right time and that they engage with the right people?	Selection criteria exists to prioritise. Chairmen supported by Scrutiny Officer to identify and prioritise scrutiny topics. Ideas tested with the Select Committee and key stakeholders and	✓

14. Are task and finish groups and standing panels used by scrutiny committees?	Yes.	×
15. Do scrutiny committees use evidence sessions to complement their work?	Infrequently. This could be done more routinely.	✓
16. Are recommendations from scrutiny committees evidence-based and SMART?	Select Committees aim to use the SMART method but this is not always the case.	✓

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Desktop Gap Analysis based on the *Scrutiny Evaluation Framework* of the Centre for Public Scrutiny (now called the Centre for Scrutiny and Governance)

CfPS Principle	Current SCC position	Add to Scrutiny Improvement Plan?
1. Do Members lead and own the overview and scrutiny work programme?	Yes. With considered input from key stakeholders and advice from officers.	×
2. Are overview and scrutiny work programmes flexible to account for unexpected emergencies?	Yes. Encourage a focus on a few key topics for each agenda so that there is flexibility to add urgent items. Also able to use multiple methods to conduct scrutiny.	×
3. Are work programmes focused on adding value, outcomes and prioritisation?	Variable.	✓
4. Does overview & scrutiny have a clearly defined and valued role in the Council's improvement and governance arrangements?	Yes. Clear role set in the council's constitution. Examples of contribution to key improvement programmes (Children's Services, Fire & Rescue Service)	×
5. Does overview and scrutiny have the dedicated officer support it needs from officers who are able to undertake independent research effectively, and	Yes. The scrutiny function is supported by a 6 FTE team. Further support comes from senior officers within the council and, where appropriate, external training.	×

provide councillors with high-quality analysis, advice and training.		
6. Are overview and scrutiny inquiries non-political, methodologically sound and do they incorporate a wide range of evidence and perspectives?	Yes. Expanded use of task & finish methodology has made reviews more robust with greater evidence base behind conclusions and recommendations.	×
7. Does overview and scrutiny provide viable and well evidenced solutions to recognised problems?	Increasingly. This is an area that must continue to develop.	✓
8. Do overview and scrutiny councillors have the training and development opportunities they need to undertake their role effectively?	Internal and external training is offered. Feedback has shown that this offer needs to be clearly communicated.	✓
9. Does the scrutiny process receive effective support from the Council's corporate management team who ensures that information provided to overview and scrutiny is of a high quality and is provided in a timely and consistent manner?	Yes.	×
10. Do decision-makers give public account for themselves at overview and	Yes. Cabinet Members are present at each Select Committee meeting and provide frequent updates on key areas of work.	×

scrutiny committees for their portfolio responsibilities?		
11. Does overview and scrutiny enable the “voice” of local people and communities across the area to be heard as part of decision and policy-making processes?	Via task & finish or longer term pieces of work and through the engagement of co-optees or external witnesses, yes. Mechanisms to ask questions and submit petitions exist as well. This could be an area that is prioritised for development.	✓
12. How are scrutiny councillors involved in influencing major decisions, and in considering and evaluating performance, finance and risk information? Good practice: Evidence of decisions being altered consensually as a result of scrutiny’s involvement.	The convention is for pre-decision scrutiny at the council which allows for Select Committee engagement in key decisions.	✗
13. Do different people with a role in holding decision-makers to account (like scrutiny, the Police and Crime Panel, a combined authority scrutiny committee, local Healthwatch) work together?	There have been examples of collaboration between different bodies on cross-cutting issues. This should continue to develop.	✓

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Audit & Governance Committee
26 November 2020

Report of the Member Code of Conduct Working Group

Purpose of the report:

To consider the recommendations of the Member Code of Conduct Working Group on the appointment of two Independent Persons; the Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct; the timeline for approving a revised Member Code of Conduct; and the response to a letter by the Committee for Standards in Public Life.

Recommendations:

That the Committee:

1. Approves the appointment of two Independent Persons. (Appendix A)
2. Approves the Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct. (Appendix B)
3. Notes that the revised Member Code of Conduct will be finalised by the working group after the Local Government Association publishes its Member Code of Conduct on 3 December 2020, after which it will be submitted to the Audit and Governance Committee on 29 January 2021 for approval and recommendation to Full Council on 9 February 2021.
4. Notes the reply to a letter sent to the Chief Executive by the Committee for Standards in Public Life (CfSPL), which had requested details of how Surrey County Council would implement the CfSPL local government ethical standards 15 best practice recommendations. (Appendix C)

Introduction:

1. At its meeting on 22 May 2020, the Audit and Governance Committee considered the Ethical Standards Annual Report and agreed to establish a working group to review possible changes to the Member Code of Conduct in light of recommendations in:

- a. The Surrey County Council Internal Audit Report of Register of Interests/Gifts and Hospitality.
- b. The Committee on Standards and Ethics 'Local Government Ethical Standards' report (2019).
- c. The Local Government Association model Member Code of Conduct (published in June 2020).

2. The following members were appointed to the working group:

David Harmer
Peter Szanto
Keith Witham
Edward Hawkins
Stephen Cooksey
Stephen Spence

3. The working group was assisted in its deliberations by the Monitoring Officer and the Member Services Manager.
4. The working group met on 9 July 2020 and 7 October 2020, and it will meet again after the Local Government Association (LGA) publishes its Member Code of Conduct on 3 December 2020, to finalise the revised SCC Member Code of Conduct.
5. After the working group's first meeting on 9 July 2020, a revised Member Code of Conduct (with significant changes highlighted), was sent to all the political groups on the Council for comment, and this was considered by the working group at its meeting on 7 October 2020.

Feedback was received from Audit and Governance Committee members; group leaders; select and local committee chairmen and two Cabinet members. The feedback was broadly supportive of the proposals in the draft LGA Member Code of Conduct.

6. The Localism Act 2011 requires the Council to adopt arrangements for dealing with complaints of a breach of the Member Code of Conduct. The working group reviewed and proposed amendments to the SCC Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct, which are designed to promote informal resolution rather than an adversarial approach.
7. The working group also considered a gap analysis which had been completed in response to recommendations from the Committee on Standards in Public Life (CfSPL), and comments and updates were included in the reply to the CfSPL.
8. The working group also considered the training provided to Members on the Member Code of Conduct, and supported the approach outlined by the Member Services Manager:
 - (1) The SCC Member Code of Conduct to be provided to all Members as part of their induction pack.
 - (2) Training to be offered in both classroom and remote formats at a variety of times to enable good attendance.

- (3) Training sessions to be recorded and offered as videos for Members who cannot attend in person.
- (4) Training to be promoted by all political groups and attendance figures reported to the Audit and Governance Committee.
- (5) Individual induction reviews to take place after 4 - 6 months and Members will be asked to confirm that they have understood the Member Code of Conduct training.
- (6) Short refresher training sessions on the Member Code of Conduct and Register of Interests to be offered to Members annually after the AGM.

Conclusions:

Financial implications

Each Independent Person receives an annual allowance of £1000 per annum. The annual cost will therefore be £2000 per annum.

Equalities and Diversity Implications

None. An Equality Impact Assessment was therefore not needed.

Risk Management Implications

Non-financial Risk:

The Council is statutorily obliged to have a Code of Conduct for its elected Members. The code must be relevant, up to date and reviewed on a regular basis to ensure that it is in line with current guidance and legislation. If this is not done, the Council could face reputational issues.

Next steps:

The Chairman of the Audit and Governance Committee to present recommendations 1 and 2 to Full Council on 8 December 2020 for approval.

After the LGA Member Code of Conduct is published on 3 December 2020, the working group will meet to resume its considerations on a revised SCC Member Code of Conduct, which will be submitted to the Audit and Governance Committee meeting on 29 January 2021 for approval and recommendation to Full Council on 9 February 2021.

Report contacts:

Paul Evans: Monitoring Officer
paul.evans@surreycc.gov.uk

Andre Ferreira: Regulatory Business Manager, Democratic Services
andre.ferreira@surreycc.gov.uk

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Appointment of two Independent Persons

Current Arrangements

The Surrey County Council Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct currently make provision for the appointment by Council of at least one Independent Person, whose views must be sought by the Council before it takes a decision on any allegation which it has decided should be investigated.

Proposal

In line with the recommendation by the Committee for Standards in Public Life, the Member Code of Conduct Working Group has proposed that SCC appoint two Independent Persons.

Advantages

The advantages of having two Independent Persons to assist the Monitoring Officer when considering whether alleged breaches of the Member Code of Conduct had taken in place, is that it widens the scope of expertise and experience and it will be in line with best practice as proposed by the Committee for Standards in Public Life.

Interviews

Interviews for Independent Persons are taking place in November 2020, and the names of the preferred persons will be submitted to Full Council on 8 December for approval. (If the names of the preferred persons are available before 26 November 2020, these will be submitted to the committee)

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**ARRANGEMENTS FOR DEALING WITH ALLEGATIONS OF BREACHES OF THE
MEMBER CODE OF CONDUCT**

1 Context

- 1.1 Surrey County Council is committed to promoting and maintaining high standards of conduct amongst its 81 elected Councillors, known as Members, and has adopted a Member Code of Conduct setting out the conduct it expects of its Members and co-opted Members as they carry out that role.
- 1.2 These are the Council's arrangements for dealing with any complaint it receives alleging that an elected or co-opted Member of Surrey County Council has failed to comply with its Member Code of Conduct. These arrangements will form the basis for investigating and deciding any such complaints.
- 1.3 The Council will appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on any allegation which it has decided should be investigated. The Council may also seek the view of the Independent Person at any other stage it chooses and a Member against whom an allegation as been made can also consult the Independent Person.

2 The Code of Conduct

- 2.1 A copy of the Council's Member Code of Conduct is set out in the Constitution, which is available for inspection on the Council's website and upon request from Democratic Services.
- 2.2 The Member Code of Conduct applies to Members when they go about the work of the Council or their role as a Member. The Council will not investigate complaints relating to a Member's private life.

3 Making a complaint

- 3.1 Anyone wishing to make a complaint about the behaviour of a Surrey County Councillor ("Member"), should email the Monitoring Officer on monitoringofficer@surreycc.gov.uk (when the new Council address is confirmed, provision will again be made for complaints to be submitted via post)

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- 3.2 The Monitoring Officer is the member of the Council's staff who has statutory responsibility for maintaining the Register of Members' Interests and who is responsible for administering the system in respect of complaints of Member misconduct.
 - 3.3 Only written complaints will be investigated and the Council will require a name and a contact address or email address to acknowledge receipt of the complaint and keep the complainant informed of its progress. The Council does not normally investigate anonymous complaints, unless there is a clear public interest in doing so. The Monitoring Officer will disclose the name of the complainant to the Member unless specifically asked to withhold it. Only in very exceptional cases will the Council be able to progress a complaint to an investigation without disclosing the identity of the complainant to the Member.
 - 3.4 The Monitoring Officer will acknowledge receipt of the complaint within 5 working days of receiving it, and will keep the complainant informed of the progress of the complaint. The Monitoring Officer will also inform the Member that a complaint has been received.

~~4 — How a complaint is resolved~~

- ~~4.1 The Monitoring Officer will review every complaint received. Where they are of the view that your complaint, if proven, would not amount to a breach of the Member Code of Conduct they will notify you of this and will not progress the matter further.~~
- ~~4.2 Wherever possible the Monitoring Officer will seek to resolve your complaint through informal resolution. Informal resolution may avoid the need for a formal investigation and could, for example, consist of the Member accepting that their conduct was unacceptable and offering an apology, or other remedial action by the Council. The Monitoring Officer will consult the Chairman of the Member Conduct Panel before recommending informal resolution and will notify you and the Member concerned of any recommendation and how that will be progressed.~~

~~5 — When a complaint will be investigated~~

- ~~5.1 On some occasions informal resolution will not be possible, because one of the parties does not agree to cooperate with an informal process. If this happens the Monitoring Officer will seek a ruling from the Independent Person, who will decide whether the matter proceeds to an investigation or progresses no further. In order to inform that decision the Monitoring Officer will disclose information to the Independent Person,~~

~~including details of the complaint, steps taken to achieve informal resolution and why this has not been successful. The complainant and the Member will be notified of the outcome.~~

~~5.2 On some occasions the Monitoring Officer may consider that the conduct alleged, if proved to have occurred, would amount to a breach of the Members Code of Conduct and would not be capable of informal resolution. If this is the case, after consultation with the Chairman of the Member Conduct Panel, the Monitoring Officer will decide whether the complaint merits formal investigation. In making that decision the Monitoring Officer will take into account both the seriousness of the alleged breach and the information provided in support of the complaint. Where the Monitoring Officer requires additional information in order to come to a decision, they may contact either the complainant or the Member to request that information.~~

~~5.3 If a complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.~~

4 Will the complaint be investigated?

4.1 The Monitoring Officer will review every complaint received.

4.2 The complaint must be:

- against one or more named Members of the authority;
- in relation to a named Member who was in office within the authority at the time of the alleged conduct and the Member Code of Conduct was in force at the time; and
- in relation to an alleged breach of the Member Code of Conduct.

4.3 If the complaint does not fall within 4.2 above, the matter will not be considered and the complainant will be informed that there will be no further action.

4.4 Where the complaint passes the above test, and in order to establish a preliminary view of the circumstances of the complaint and whether there may be a course of action which could be taken to resolve the issues promptly without the need for formal action, the Monitoring

Officer may consult or meet with any other relevant persons, which may include the Leader of the Council or Group Leaders, the Chief Executive or any other officers, the complainant and the Member against whom the complaint has been made.

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- 4.5 The Monitoring Officer will then consult with the Independent Person and decide whether the complaint merits formal investigation. The Independent Person should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial. This decision will normally be taken within 14 days of receipt of the complaint. The complainant and the Member against whom the complaint is made will be informed of the Monitoring Officer's decision and the reasons for that decision.
- 4.6 In assessing whether a complaint should be investigated the following factors will be taken into consideration:
- Public interest – the decision whether to investigate will be a proportionate response to the issues raised and expected outcomes will take into account the wider public interest and the costs of undertaking an investigation. Complaints will only be investigated where the allegations are reasonably considered to be serious matters.
 - Alternative course of action – a complaint will only be investigated where there is no other action which could be taken which would achieve an appropriate outcome in the circumstances of the case.
 - Member's democratic role – where a complaint relates to a matter more appropriately judged by the electorate at the local elections, the Monitoring Officer will not normally refer these matters for investigation.
 - Previous action - if the complaint has already been subject to a previous investigation or some other action relating to the code of conduct or other related process, the matter will ordinarily not be referred for further action.
 - Vexatious/repeated complaints – the Monitoring Officer will not refer for investigation a complaint that is the same or substantially the same as one previously made by the complainant.

- Timing of the alleged conduct – if there are significant delays between the incident complained of and the complaint the matter will not ordinarily be considered further unless there are very good reasons for the delay.
- Ulterior motive – no further action is likely to be taken if the complaint is considered to be motivated by malice, political motivation or retaliation.

4.7 In appropriate cases the Monitoring Officer in consultation with the Independent Person may consider resolution of the complaint without the need for a formal investigation. This may involve:

- The Member accepting that his/her conduct was unacceptable and offering an apology or other remedial action by the authority.
- Referring the matter to group leaders or officers.
- The member being required to attend training.
- The Member being required to meet with the Monitoring Officer and/or other relevant officers.
- Such other action as is considered appropriate by the Monitoring Officer and Independent Person.

4.8 Matters which might appropriately be dealt with as described in 4.8 above may include:

- Misunderstanding of procedures or protocols.
- Misleading, unclear or misunderstood advice from officers.
- Lack of experience or training.
- A general deterioration of relationships, including those between Members and officers, as evidenced by a pattern of allegations of minor disrespect.
- Allegations and retaliatory allegations from the same individuals.

4.9 If this action does not resolve the complaint, the Monitoring Officer, in consultation with the Independent Person, will reconsider whether the

complaint merits formal investigation. An investigation will only be conducted where the Monitoring Officer and Independent Person agree that this is the appropriate course of action. The Monitoring Officer reserves the right, in exceptional circumstances, to refer a complaint to the Member Conduct Panel to determine if an investigation is the appropriate course of action.

- 4.10 If the complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to refer the matter to the Police and other regulatory agencies.
- 4.11 If the Monitoring Officer or the Independent Person in considering any complaint, at any time, become aware that they have an actual or potential conflict of interest, they will record and declare this to the complainant and councillor concerned. They will withdraw from consideration of the complaint and ensure the complaint is considered independently by an alternative Deputy Monitoring Officer, or an alternative Monitoring Officer appointed from another Local Authority as appropriate, and an alternative Independent Person.

5 How is the investigation conducted?

- 5.1 If the Monitoring Officer decides that a complaint merits formal investigation, he/she will appoint an Investigating Officer. This may be a member of the Council's staff or an external investigator. The Investigating Officer will decide whether to speak to the complainant and to any other witnesses and may collect written evidence, such as correspondence, or minutes of meetings.
- 5.2 The Investigating Officer will contact the Member and provide them with a copy of the complaint, and ask the Member to provide his/her explanation of events, and to identify what documents the Investigating Officer needs to see and anyone they should interview. In very exceptional cases, where the Monitoring Officer, after consulting the Independent Person, considers that disclosing details of the complaint to the Member might prejudice the investigation, these will be withheld from the Member until the investigation has progressed sufficiently.
- 5.3 At the end of their investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, in confidence, to the complainant and to the member concerned, to give them both an opportunity to identify any inaccuracies in the report and to comment on their findings. Having received and taken account of any comments that

you may make on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

5.4 The investigation and the Investigating Officer's report will be kept confidential at this stage.

6 What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Member Code of Conduct?

The Monitoring Officer will send a copy of the Investigating Officer's report to the Chairman of the Member Conduct Panel and to the Independent Person and seek their views on whether to convene a Member Conduct Panel hearing. Where a hearing is inappropriate the Monitoring Officer will write to the parties, notifying them that they are satisfied that no further action is required. The Monitoring Officer will send them both a copy of the Investigating Officer's final report, which will no longer be confidential at this point.

7 What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Member Code of Conduct?

Where the Investigating Officer concludes that there is evidence of a failure to comply with the Member Code of Conduct the Monitoring Officer will arrange for the Member Conduct Panel to hold a meeting, within three months of the Investigator's final report being issued, so that it can take a decision on the complaint.

7.1 The Monitoring Officer will invite the Member to reply in writing to the Investigation Officer's report, in particular to identify what is likely to be agreed and what is likely to be in contention at the hearing. The Member will be invited to give a view on whether the Panel should meet in public or in private. The Chairman of the Member Conduct Panel will set a date for the hearing and may issue directions as to the manner in which the hearing will be conducted, including whether or not the Member Conduct Panel will meet in public or private.

7.2 At the hearing, the Investigating Officer will present their report, call such witnesses as they consider necessary and make representations to substantiate their conclusion that the Member has failed to comply with the Member Code of Conduct.

7.3 The Member will also have an opportunity to give evidence, to call witnesses and to make representations to the Member Conduct Panel as to why they consider that they did not fail to comply with the Member Code of Conduct.

7.4 After hearing from all the parties the Member Conduct Panel may conclude either:

- that the Member did not fail to comply with the Member Code of Conduct or
- that the Member did fail to comply with the Member Code of Conduct, in which case it will also decide what action to recommend or to take.

The Member Conduct Panel will not announce its decision at the Hearing. Before reaching a final decision on the complaint and any sanction, the Chairman of the Member Conduct Panel will report its finding to the Independent Person, whose views will be sought and taken into account by the Panel before a final decision is made.

8 What action can the Member Conduct Panel take where a Member has failed to comply with the Member Code of Conduct?

The Council has delegated to the Member Conduct Panel the power to take such action in respect of individual Members as may be necessary to promote and maintain high standards of conduct. Accordingly, the Member Conduct Panel may –

8.1 Decide that no action is needed.

8.2 Issue a statement of censure.

8.3 Recommend to the Member's Group Leader (or in the case of ungrouped members, recommend to Council or to Committees) that he/she consider all or any of the following sanctions:

- the Member be removed from any or all Committees or Sub-Committees of the Council;
- the Member be removed from the Cabinet, or removed from particular Portfolio responsibilities;
- the Member be removed from all outside appointments to which he/she has been appointed or nominated by the authority.

8.4 Report its findings and recommendations to the next available meeting of the County Council.

The Member Conduct Panel has no power to suspend or disqualify the Member or to withdraw members' or special responsibility allowances.

9 How are the Panel's findings communicated to a Member?

As soon as reasonably practicable after the Panel has made its final decision, the Monitoring Officer will prepare a formal decision notice in consultation with the Chairman of the Member Conduct Panel, and send a copy to the complainant and to the Member and will make that decision notice available for public inspection.

10 Who is on the Member Conduct Panel?

The Member Conduct Panel is a cross-party Panel of Members of the Council chaired by the Chairman of the County Council. Any hearing will be conducted by three of their number, one of whom shall be the Chairman or Vice Chairman of the Council, who will chair the meeting. In the event that neither the Chairman nor Vice Chairman are able to chair the meeting the hearing will be conducted by three members of the Panel and the election of one of their number to chair the hearing will be the first item of business at the meeting.

11 Who is the Independent Person?

The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post and is appointed by a positive vote from a majority of all the Members of Council.

A person cannot be “independent” if he/she –

- is, or has been within the past 5 years, a member, co-opted member or officer of the Council; or
- is a relative, partner or close friend, of a member, co-opted member or officer of the Council; or
- is an active member of a political party.

12 Revision of these arrangements

The Council may by resolution agree to amend these arrangements, and has delegated to the Chairman of the Member Conduct Panel the right to depart from these arrangements where they consider that it is expedient to do so in order to secure the effective and fair consideration of any matter.

13 Appeals

A Member is expected to comply with the decisions taken through the process and has no right of appeal against a finding of breach of the Member Code of Conduct. However, a Member may require that a further Member Conduct Panel meeting reviews any sanction imposed at a hearing.

14 Local Government Ombudsman

Where a complainant concludes that the authority has failed to deal properly with a complaint, they may make a complaint to the Local Government Ombudsman.

CSPL local government ethical standards 15 best practice recommendations

Name of local authority:

Surrey County Council

Please note that where reference is made to “The proposal is that...” in paragraphs 1, 2, 3, 5, 7, 8, 10, 14 and 15, it refers to the proposals made by the working group appointed by the Council’s Audit and Governance Committee to consider the SCC Members’ Code of Conduct, which will be submitted for approval in February 2021.

1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Progress:

The proposal is that SCC should adopt the LGA Member Code of Conduct, and reference to bullying and harassment will therefore be included in the SCC Member Code of Conduct. It will also contain specific examples of bullying and harassment.

2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.

Progress:

The proposal is that SCC adopt the LGA Member Code of Conduct, which states that only breaches confirmed and of a serious nature can be automatically escalated.

The SCC Member Code of Conduct investigation procedure will also include a Public Interest Test so as to avoid trivial or malicious allegations.

3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

Progress:

The proposal is that the Audit and Governance Committee annually reviews the Member Code of Conduct in the annual Ethical Standards Report review.

A proportionate process will be put in place to get views from the public, such as a link requesting comment, which could be included on the webpage where the Code of Conduct is published.

4: An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.

Progress:

A webpage is currently published on the Council's website and provides a link to the Member Code of Conduct. The Member Code of Conduct is also published in the Constitution, which is also on the website.

5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Progress:

Currently, the Members' gifts and hospitality register is maintained in hard copy format only and updates are made immediately on receipt.

The proposal is that the register should in future be published on the relevant webpages and the ModGov system (possibly on the same page where Member Declarations of Interests are published).

6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Progress:

Please see paragraph 2 above.

7: Local authorities should have access to at least two Independent Persons.

Progress:

The proposal is that SCC should appoint two (2) Independent Persons. Interviews are currently being conducted; recommendations for appointment will be submitted to Full Council on 8 December 2020.

8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

Progress:

The proposal is that the SCC Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct should include a provision that an Independent Person will be consulted by the Monitoring Officer when deciding whether a formal investigation will be undertaken and the Independent Person should be given the opportunity to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Progress:

This is already in practice at SCC.

10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Progress:

The proposal is that the SCC Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct which appear on its website, will in future include indicative timescales for investigations and outcomes.

11: Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.

Progress:

Not applicable to SCC.

12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Progress:

Not applicable to SCC.

13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Progress:

The proposal is that the SCC Arrangements for Dealing with Allegations of Breaches of the Member Code of Conduct will include procedures to address any conflicts of interest when investigations are undertaken.

14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness and publish their board agendas and minutes and annual reports in an accessible place.

Progress:

The proposal is that a summary of the separate bodies that the Council has established will be incorporated in the Annual Governance Statement. Information relating to separate bodies which the Council has set up or owns and which can be released in the public domain, will be published. This would exclude Part 2 activities (e.g. commercially sensitive information) as a matter of course.

15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

Progress:

The SCC Monitoring Officer and senior Democratic Services officers meet regularly with Group Leaders to discuss standards issues.
