

Notice of Meeting

Audit and Governance Committee



SURREY
COUNTY COUNCIL

Date & time

Monday, 13 June
2022
at 10.00 am

Place

Surrey County
Council, Woodhatch
Place, 11 Cockshot
Hill, Reigate, Surrey,
RH2 8EF

Contact

Angela Guest

angela.guest@surreycc.gov.uk
v.uk

Chief Executive

Joanna Killian



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

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This meeting will be held in public. If you would like to attend, please contact Angela Guest on 07929 724773

Members:

Stephen Cooksey, Victor Lewanski (Vice-Chairman), David Lewis (Chairman), Joanne Sexton and Richard Tear

Independent Member:

Terry Price

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [28 MARCH 2022]

(Pages 1
- 6)

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

3 DECLARATIONS OF INTEREST

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

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

NOTES:

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

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*7 June 2022*).
2. The deadline for public questions is seven days before the meeting (*6 June 2022*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND WORKPLAN

(Pages 7
- 14)

To review the Committee's recommendations tracker and note the workplan.

6 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2021/22

(Pages
15 - 42)

This report summarises the work of Internal Audit, identifying the main themes arising from the audit reviews and the implications for the County Council.

- 7 COUNTER FRAUD ANNUAL REPORT 2021/22** (Pages 43 - 54)
- The report covers the counter fraud work completed in the year from 1 April 2021 to 31 March 2022 in accordance with the Counter Fraud Strategy and Framework.
- 8 EXTERNAL ASSESSMENT PROPOSAL** (Pages 55 - 76)
- To give approval to put a bid to the Institute of Internal Auditors for them to conduct our External Quality Assessment for the purpose of compliance with professional standards.
- 9 2021/22 TREASURY MANAGEMENT OUTTURN REPORT** (Pages 77 - 88)
- This report summarises the council's treasury management activity, as required to ensure compliance with CIPFA. The report will include the latest risk register for Treasury Management.
- 10 COUNCIL COMPLAINTS - ANNUAL REPORT** (Pages 89 - 108)
- To give the Audit & Governance Committee an overview of the Council's complaint handling performance in 2021/22 and to demonstrate how feedback from customers has been used to improve services.
- 11 GOVERNANCE - HIGHWAYS BUDGETS** (Pages 109 - 116)
- To give Audit & Governance Committee an overview of the governance and details of the various highways budgets. To include revenue & capital expenditure and governance arrangements.
- 12 DRAFT ANNUAL GOVERNANCE STATEMENT** (Pages 117 - 128)
- This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year.
- 13 EXTERNAL AUDIT PLAN AND DRAFT STATEMENT OF ACCOUNTS 2021/22 (TO FOLLOW)** (Pages 129 - 160)
- The purpose of this report is to receive the Council's Statement of Accounts, as well as to inform the Committee of the result of the external audit of the council's Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation.
- Annex 2 – Draft Statement of Accounts – To Follow
- 14 DATE OF NEXT MEETING**
- The next meeting of Audit & Governance Committee will be on 12 September 2022.

**Joanna Killian
Chief Executive**

Published: Wednesday, 1 June 2022

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 2.00 pm on 28 March 2022 at Surrey County Council, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

Stephen Cooksey
*Victor Lewanski (Vice-Chairman)
*David Lewis (Chairman)
*Joanne Sexton
*Richard Tear

Independent Member:

*Terry Price

14/22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apology was received from Stephen Cooksey.

15/22 MINUTES OF THE PREVIOUS MEETING [24 JANUARY 2022] [Item 2]

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

16/22 DECLARATIONS OF INTEREST [Item 3]

There were none.

17/22 QUESTIONS AND PETITIONS [Item 4]

There were none.

18/22 RECOMMENDATIONS TRACKER AND WORKPLAN [Item 5]

Speakers:
Chairman

Key points raised during the discussion:

1. The Chairman highlighted the new item regarding highways budgets for the June meeting.

Action/Further information to note:
None.

RESOLVED:

That the forward plan and action tracker be noted.

19/22 VALUE FOR MONEY ASSESSMENT OF 2020/21 ACCOUNTS [Item 6]

Speakers:
Barry Stratfull, Chief Accountant (Corporate)

Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Chief Accountant introduced this historical report from Grant Thornton that showed the council were rated green in all areas apart from two areas of significant weaknesses which the council already known about and were addressing. As a historical report it did not show the latest improvements in these two areas.
2. Grant Thornton reiterated what had already been said in the introduction and highlighted the two key recommendations around pensions and children's services, and several improvement recommendations in the report.
3. A Member expressed concern about the need to find huge savings year on year. The Strategic Finance Business Partner agreed that it was difficult.
4. The Chairman pointed out incorrect wording in the report where it said that 'it was planning to issue a qualified opinion' when in fact it had been issued. Grant Thornton agreed to amend the report before it went on the website.

Action/Further information to note:

Grant Thornton to update the wording of the report before it goes onto the website.

RESOLVED:

1. That the report, the improvement recommendations and agreed management responses outlined in Grant Thornton's Value for Money assessment were noted.

20/22 EXTERNAL AUDIT - AUDIT PLAN [Item 7]

Speakers:

Barry Stratfull, Chief Accountant (Corporate)
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Chief Accountant introduced this progress report for the 2021/22 external audit plan. The Committee were being asked to approve the progress report and not the plan as stated in the recommendation. Work on the draft statements had begun on the interim audit work.
2. Grant Thornton explained that a plan had not been issued due to a national issue around accounting for infrastructure assets. The audit team was doing all the planning work to make sure that when the plan comes around we're able to have that fully completed. The plan was to start the financial statements work at the beginning of July and with the sign off by the statutory deadline of the 30th of November, for this year.
3. A Member asked about the emergency consultation by CIPFA which ended on 3 March and what the arrangements would be going forward. It was explained that there was nothing the committee could do on this and finalising the audit plan would have to wait until this was known.

Action/Further information to note:

None.

RESOLVED:

1. That the progress report be approved.

21/22 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 (01/10/21 - 31/12/21) [Item 8]**Speakers:**

Russell Banks, Chief Internal Auditor
David John, Audit Manager (SCC)
Simon White, Counter Fraud Manager

Key points raised during the discussion:

1. The Audit Manager introduced a report which gave a summary of quarter three audit completed reviews. He drew attention to the three partial assurance audits, public sector bodies, accessibility regulations, the follow up to the Code of Conduct and procurement processes in land and property. Audit had agreed remedial actions with management for those three audits. There had been amendments to the audit plan where a couple of audits were added: A safe and inventory review, which was a direct result of the move from County Hall and some work around children's panels process.
2. A Member asked a question around blue badge fraud which was a continuing problem. The Counter Fraud Manager explained the parking contract and stated that this was not a matter for County but for boroughs and districts locally. Occasional the team get involved in more complicated cases. An exercise was conducted in Leatherhead and were surprised at the level of misuse undertaken and therefore might look forward to do a little bit more of in the future, but obviously needed to do balance that with general work commitments.
3. A Member asked about the volume of high priority actions being tracked by the Audit Team. The Audit Manager stated that the team only track the high priority actions and all medium/low actions were tracked by management. He couldn't give a definitive number of high priority actions but though it was relatively low at around 20.
4. A Member asked a question about the partial assurance of school audits and feedback on action items. The Audit Manager explained the work to share findings and recommendations and the use of the school bulletin since they go across all schools across the partnership as well as just the individual schools. Also, a significant amount of governor briefings were undertaken where findings from initial audit work had been shared.

Action/Further information to note:

None.

RESOLVED:

That the submitted report be noted.

22/22 INTERNAL STRATEGY AND ANNUAL AUDIT PLAN 2022/23 [Item 9]

Speakers:

Russell Banks, Chief Internal Auditor
 Anna D'Alessandro, Director Corporate Finance

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the submitted report and explained that there was an overarching internal audit strategy which sets out delivery of audit insurance activities and explained the process of producing the detailed audit plan for the year ahead. He described the various sources on information in order to set the plan.
2. There was some discussion around requesting a deep dive investigation into blue badge fraud. The Chief Internal Auditor said he could submit a paper summarising the work, the results and maybe options for future exercises or more resource. He also offered to set up an informal session with the committee to provide an update on some of the counter fraud work that has been done.
3. There were questions around the resource and the constraint of the number of days allocated. The Chief Internal Auditor assured the Committee that if he felt extra resources were needed then he would be able ask for that. The Director of Corporate Finance added that the Section 151 officer would be very open if the chief internal auditor felt he wasn't getting the coverage and would be more than welcome to expand the audit plan in order to meet any requirements.

Action/Further information to note:

That an informal meeting be arranged for the Audit Team to present counter fraud work undertaken.

RESOLVED:

1. That the Committee approved the annexes to the submitted report:
 - a. The Internal Audit Strategy (Annex A)
 - b. The Internal Audit and Corporate Fraud Plan (Appendix A)
 - c. The Internal Audit Charter (Appendix B)

23/22 RISK MANAGEMENT [Item 10]**Speakers:**

Anna D'Alessandro, Director for Corporate Finance

Key points raised during the discussion:

1. The Director for Corporate Finance introduced the submitted report and highlighted key areas. The report set out what is being done, what risk appetite is, how it's being stratified, how it can be stratified in the organisation and how the organization can benefit from having a review of its risk appetite and the approach that's being taken. She described the ongoing work around risk appetite and that an update would be brought to the September meeting of this committee.
2. A Member asked about the expectation of use of the 'withdraw from activity' level. The Director was unable to answer but would ensure a response was given by the Interim Strategic Risk Business Partner after the meeting.
3. The Director of Corporate Finance then explained the governance part of the submitted report that described the work around risk governance and as a result the risks now go to the Cabinet Member

rather than this Committee but it would receive updates on and the corporate risks every six months for oversight.

4. A Member reported that he had witnessed this approach in other places and thought Surrey were going in the right direction with Audit & Governance having an oversight role

Action/Further information to note:

None.

RESOLVED:

1. That the update on risk management be noted.
2. That the revised governance arrangements for risk management including feedback in March 2023 on whether these governance changes were working effectively be noted.

24/22 ETHICAL STANDARDS ANNUAL REVIEW [Item 11]

Speakers:

Paul Evans, Director Law & Governance

Key points raised during the discussion:

1. The Director for Law & Governance introduced an annual report that looked back over the previous 12 months on the operation of the Code of Conduct. He highlighted the following points:-
 - The Council adopted the new Code of last May and changes were made to the process for considering complaints and in particular introducing a criteria by which components could be judged against in determining whether or not formal investigation was required.
 - Two new independent people to the Council were appointed for the role of independent person to consider complaints, and they've been in the role now for 12 months.
 - The report also detailed some other training development done on information governance and GDPR for Members also on social media and also into the officer member protocols and their relationships between officers and members.
 - There had been a total of 10 complaints in the last year and all of those complaints were considered by him and an independent person to agree what action was appropriate. Of those ten formal complaints, eight of those have completely been through the process and none of the eight were referred to a panel of members. In the other 2 cases informal resolution was taken forward.
 - There was planned work on reminders for the Code of Conduct for Members and also on the registration of interests.
2. In response to Member questions the Director of Law & Governance reported that 61 Members had attended the Code of Conduct training live and the others had been followed up to watch the recording. He also responded that 10 complaints was relatively low and that Members used the complaints system responsibly i.e. not using it for political purposes.

Action/Further information to note:

None.

RESOLVED:

1. That the induction training undertaken by County Councillors following the election in May 2021 be noted.
2. That the Monitoring Officer's report on recent activity in relation to the Members' Code of Conduct and complaints made in relation to Member conduct be noted.

25/22 DATE OF NEXT MEETING [Item 12]

The date of the meeting was NOTED.

Meeting ended at: 3.10 pm

Chairman

**Audit & Governance Committee**
13 June 2022**RECOMMENDATIONS TRACKER AND WORPLAN****PURPOSE OF REPORT:**

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

INTRODUCTION:

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

RECOMMENDATION:

The Committee is asked to:

1. Monitor progress on the implementation of recommendations from previous meetings in Annex A.
2. Note the workplan and any changes to it.

REPORT CONTACT: Angela Guest, Committee Manager
angela.guest@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
A8/21	29 November 2021	A&G administration Discussed outside of meeting	a) Review report template – to include executive summary and have a limit to length of reports	Committee Manager	January 2022 – report templates were being discussed with wider Democratic Services Team. May 2022 – All templates are being reviewed as part of a wider package. It is expected that new templates will be ready in time for the September meeting of A&G.
A1/22	28 March 2022	Internal Strategy and Annual Audit Plan 2022/23	That an informal meeting be arranged for the Audit Team to present counter fraud work undertaken.	Chief Internal Auditor	May 2022 - An in-depth session will be arranged nearer the September meeting.

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COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

A2/21	24 January 2022	Complaints	it was requested that an informal meeting be set up with the committee and relevant officers to discuss future complaints reporting.	Sarah Bogunovic	March 2022 update – At the informal meeting arranged the Chairman agreed with officers that the annual complaints report be put on workplan for June with an update in November 2022. Workplan has been updated.
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AUDIT & GOVERNANCE COMMITTEE: WORK PLAN 2022

WORK PLAN 2022

24 January 2022		
BUSINESS CONTINUITY	Report to be considered following external audit with bsi on the council's business continuity plans / emergency management. Along with this, if possible, a debrief to be noted on business continuity aspects of COVID-19.	Head of Emergency Management
TREASURY STRATEGY	This report sets out the council's treasury management strategy for 2021/22, as required to ensure compliance with CIPFA's Code of Practice for Treasury management.	Finance Manager
CORPORATE RISK UPDATE	To receive Corporate Risk Update - To receive an update on Risk Management	Strategic Risk Business Partner
AUDIT FINDINGS REPORT FOR ALL SCC TRADING COMPANIES	Dec 2016 Committee requested that annual accounts also be presented. To include Surrey Choices as well as Halsey Garton & S E Business Services.	Grant Thornton
APPOINTMENT OF INDEPENDENT MEMBER	following the recruitment exercise, a report be presented to the Audit and Governance Committee at its November meeting to make recommendations to Council at the February 2022 meeting, to agree the necessary changes to the Audit and Governance Committee's membership, and formally appoint the Independent member.	Dir. Law & Governance

28 March 2022		
INTERNAL AUDIT PROGRESS Q3	The purpose of this progress report is to inform Members of the work completed by Internal Audit during Q3.	Audit Manager
EXTERNAL AUDIT – AUDIT PLAN	The Council's external auditors to present their Audit Plan in respect of Surrey County Council and for the Surrey Pension Fund.	Audit Manager/Engagement Lead (Grant Thornton)
INTERNAL AUDIT PLAN FOR 2022/23		Audit Manager
ETHICAL STANDARDS ANNUAL REVIEW	To enable the Committee to monitor the operation of the Members' Code of Conduct over the course of the last year.	Monitoring Officer
RISK MANAGEMENT	To receive an update on Risk Management (Mar & Sept)	Strategic Risk Business Partner

13 June 2022		
DRAFT ANNUAL GOVERNANCE STATEMENT	This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year.	CEX to present Service Improvement and Risk Manager, Finance
INTERNAL AUDIT ANNUAL REPORT AND OPINION (including Quarter Four progress report)	This report summarises the work of Internal Audit, identifying the main themes arising from the audit reviews and the implications for the County Council.	Audit Manager
COUNTER FRAUD ANNUAL REPORT		Audit Manager
New item INDEPENDENT EXTERNAL ASSESSMENT OF INTERNAL AUDIT	To give approval to put a bid to the Institute of Internal Auditors for them to conduct our External Quality Assessment for the purpose of compliance with professional standards	Audit Manager

TREASURY MANAGEMENT OUTTURN REPORT	This report summarises the council's treasury management activity, as required to ensure compliance with CIPFA. The report will include the latest risk register for Treasury Management.	Strategic Finance Manager
SURREY COUNTY COUNCIL ACCOUNTS AND EXTERNAL AUDIT'S AUDIT FINDINGS REPORT SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS	The purpose of this report is to receive the Council's Statement of Accounts, as well as to inform the Committee of the result of the external audit of the council's Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation.	Strategic Finance Manager – Corporate Audit Manager/Engagement Lead (Grant Thornton) Senior Manager (Mamon Zaman)
COUNCIL COMPLAINTS – ANNUAL REPORT	To give the Audit & Governance Committee an overview of the Council's complaint handling performance in 2021/22 and to demonstrate how feedback from customers has been used to improve services.	Customer Relations & Service Improvement Manager
GOVERNANCE – HIGHWAYS BUDGETS	To give Audit & Governance Committee an overview of the governance and details of the various highways budgets. To include revenue & capital expenditure and governance arrangements.	Highway Engagement & Commissioning Manager

12 September 2022

RISK MANAGEMENT	To receive an update on Risk Management (Mar & Sept)	Strategic Risk Business Partner
EXTERNAL AUDIT: ANNUAL AUDIT LETTER	The Council's external auditors present their Annual Audit Letter	Director – Corp Finance Grant Thornton
EXTERNAL AUDIT PERFORMANCE	To report back on performance against KPIs agreed in September 2018.	Director – Corp Finance Grant Thornton
INTERNAL AUDIT PROGRESS – Q1	The purpose of this progress report is to inform Members of the work completed by Internal Audit during Quarter 1.	Chief Internal Auditor/ Audit Manager

28 November 2022		
ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE	This report provides an update on progress on the improvement areas identified in the 2020/21 Annual Governance Statement.	Dir. Law & Governance/Cex
EXTERNAL AUDIT UPDATE REPORT	To receive an update from the council's external auditors.	Grant Thornton
AUDIT FINDINGS REPORT FOR ALL SCC TRADING COMPANIES	Dec 2016 Committee requested that annual accounts also be presented. To include Surrey Choices as well as Halsey Garton & S E Business Services.	Grant Thornton
TREASURY MANAGEMENT HALF YEAR REPORT	This report summarises the council's treasury management activity.	Director – Corp Finance
INTERNAL AUDIT PROGRESS – Q2	To report on Internal Audit progress during quarter 2.	Audit Manager
COUNTER FRAUD STRATEGY	This will be an update to Surrey's Counter Fraud Strategy for the Committee to approve.	Simon White
COUNCIL COMPLAINTS – HALF YEARLY UPDATE	To receive a half year update report on the operation of the Council's complaints procedures.	Customer Relations & Service Improvement Manager
New item ANNUAL REPORT OF THE LOCAL GOVT SOCIAL CARE OMBUDSMAN ANNUAL LETTER	To receive the annual Ombudsman letter.	Customer Relations & Service Improvement Manager
BUSINESS CONTINUITY	Update requested by A&G committee at its January 2022 meeting.	Head of Emergency Management

AUDIT & GOVERNANCE COMMITTEE
13 June 2022

Internal Audit Annual Report and Opinion 2021-22

SUMMARY AND PURPOSE:

The purpose of this report is to give an opinion on the adequacy of Surrey County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2021 to 31 March 2022 in accordance with the Internal Audit Strategy for 2021/22. A separate report on Counter Fraud work undertaken in 2021/22 forms part of this Committee agenda.

RECOMMENDATIONS:

Members are asked to:

1. Note the work undertaken and the performance of Internal Audit in 2021/22 and the resultant annual opinion of the Chief Internal Auditor;
2. Determine whether there are any matters that the Committee wishes to consider for inclusion in the Council's Annual Governance Statement; and
3. Consider whether the Council's arrangements for internal audit have proved effective during 2021/22.

BACKGROUND:

1. All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities '*must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*'. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.
2. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.
3. No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance that Surrey County Council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.
4. This opinion, and the evidence that underpins it, is further explained in the full Internal Audit Service's Annual Report and Opinion which forms Annexe A of this report. The report highlights:

- Key issues for the year, including a summary of all audit opinions provided;
 - Progress on implementation of high-risk recommendations;
 - Key financial systems;
 - Other internal audit activity; and
 - Anti-fraud and corruption coverage.
5. A summary of the major findings from audit reviews completed during quarter 4 of 2021/22 is included in Annexe B (major findings from previous quarters have already been reported).
 6. Finally, Section 6 of the annual report sets out details of internal audit performance for the year, including details of compliance against the relevant professional standards.

INTRODUCTION:

7. During 2021/22 the Orbis Internal Audit team has delivered the Annual Plan through the Orbis Partnership arrangement with East Sussex County Council and Brighton & Hove City Council. Collaborative working has led to changes in various aspects of Internal Audit practice and process, and has achieved economies in the delivery of audits through the development of specialisms and more effective joint working.

IMPLICATIONS:

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

WHAT HAPPENS NEXT:

10. The Chief Internal Auditor and Audit Manager will continue to update management and members through our progress reporting on the finalisation of outstanding work from the 2021/22 plan, and how information within our Annual Report informs the Council's Annual Governance Statement.

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

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INTERNAL AUDIT ANNUAL REPORT & OPINION 2021/2022



1. Internal Control and the Role of Internal Audit

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

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

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

2. Delivery of the Internal Audit Plan

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

2.2 Covid 19 continued to have an impact on the Council in 2021/22. This has meant that we have had to adopt flexible working practices, reschedule audits, and make a much greater number of amendments to the year's audit plan than would normally be the case.

2.3 During 2021/22, we have continued to see an increase in the number of government grants that need to be certified by Internal Audit, some of which are specific to supporting the Council through the pandemic.

2.4 Notwithstanding the above, we have still been able to deliver sufficient audit and assurance activity within the year to enable us to form an overall annual audit opinion for the Council in the normal way. This includes delivery of the revised programme of audits and investigating any allegations of fraud and other irregularities.

2.5 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to CLT and the Audit and Governance Committee as part of our periodic internal audit progress reports. It should be noted that whilst there were a number of audits reports still in draft at the year-end, the outcomes from this work have been taken into account in forming our annual opinion. Full details of these audits will be reported to CLT and the Audit and Governance Committee once each of the reports have been finalised with management.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide Reasonable Assurance⁽¹⁾ that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.

3.2 Further information on the basis of this opinion is provided below. Overall, whilst the majority of audit opinions issued in the year were generally positive, internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by one minimal assurance opinion and eight partial assurance opinions issued in the year. All nine areas will be subject to a follow-up audit to ensure the expected improvement has occurred.

3.3 Where improvements in controls are required as a result of any of our work, we have agreed appropriate remedial action with management.

3.4 The Council has continued to strengthen its risk management framework and assurance work completed in the year shows this to be in line with expected good practice and implemented successfully within the Authority. Embedding new processes remains a key activity, which we will support through a planned compliance review against the new arrangements as part of our 2022/23 plan.

3.5 We have provided advice to the Digital Business and Insights (DB&I) Programme Board throughout the year, seeking to provide, where possible, specific assurance in the key areas to support critical decisions, such as cutover and go-live.

3.6 Summaries of this work to date have previously been provided to the Audit and Governance Committee. However, we have not yet been able to provide the full extent of our planned assurance to the Board which, due to delays in the Programme, has meant that elements of our assurance work remain incomplete.

3.7 Whilst we will continue to work with the Board and hope to provide further assurance (particularly on the internal control environment prior to go-live) as part of the 2022/23 plan, this activity carries the risk of diverting management resources away from programme delivery and is therefore something we have invited the Board to consider. In the meantime, we will continue to advise the Board on the nature and detail of assurances it should be receiving prior to cutover and go-live decisions.

3.6 In addition to specific audit reviews, we undertake regular liaison activity with all directorates to understand emerging pressures and risk areas, and amend our plan of work accordingly. This process provides additional assurance that the audit programme remains current and focused on the highest risks.

¹ This opinion is based on the activities set out in the paragraphs below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

4. Basis of Opinion

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

- All audit work completed during 2021/22, planned and unplanned;
- Follow-up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the Internal Audit service's performance.

4.2 Whilst no direct limitations have been placed on the scope of Internal Audit during 2021/22, two planned pieces of work within Adult Social Care service have been deferred at the request of management given the impact of Covid 19 and in order to allow it time to fully embed new responsibilities incumbent upon the service. This work is included in our 2022/23 plan.

4.3 It should also be noted that Covid-19 has continued to have an impact on some of the services we have audited in the 2021/22 financial year. In some instances, this has meant that some of the expected improvements to internal controls have been delayed. In all cases, any changes to the audit plan have been reported to CLT and Audit and Governance Committee as part of our quarterly progress reports.

5. Key Internal Audit Issues for 2021/22

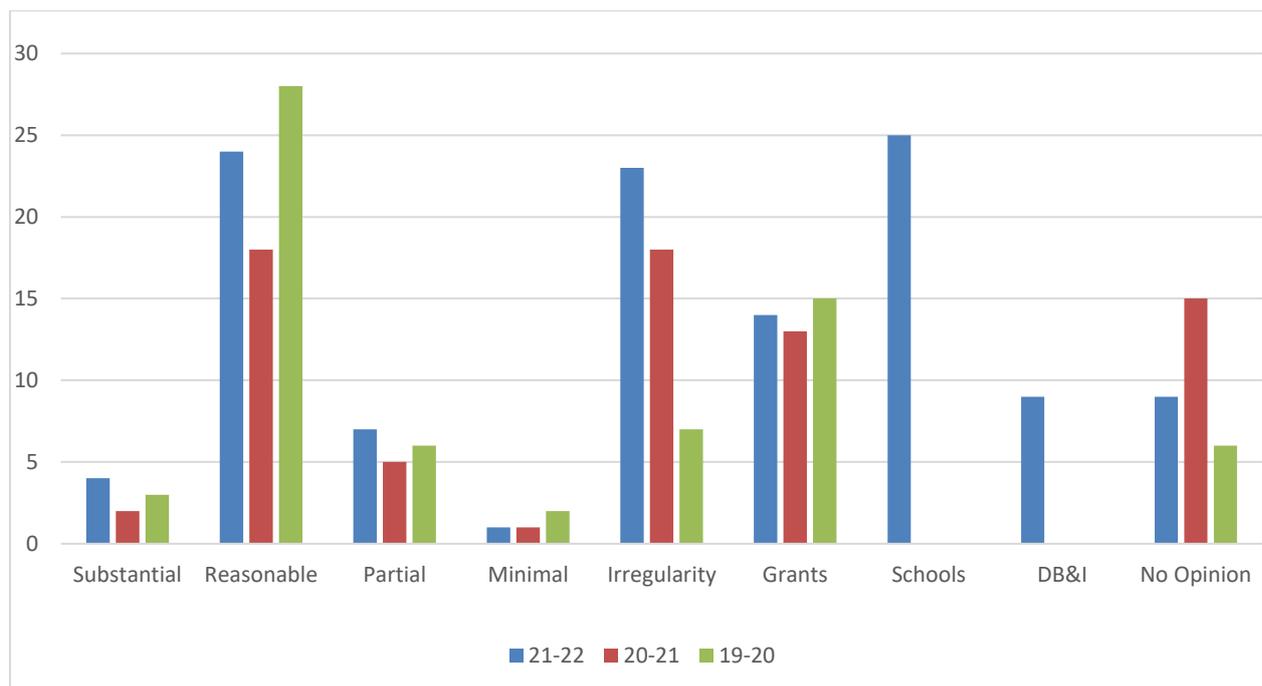
5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, will be taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The graph below provides a summary of the outcomes from all audits finalised during 2021/22, compared to the previous two years.

5.3 A full list of completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels.

5.4 As explained above, this includes one audit of Minimal Assurance which related to banking controls within the LGPS Pension Fund. Details of this audit are contained within the quarter four progress report at Annexe B of this report.

Audit Opinions:



*No Opinion: Includes audit reports or activity where we did not give a specific audit opinion. Typically this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance based opinions is not appropriate, such as the support work to the DB&I Programme.

5.5 In addition to the above, a total of seven completed audits received partial assurance opinions within the year, as follows:

- SFRS Pension Administration follow-up
- LGPS Pension Administration (two separate audits)
- Accessibility Regulations
- Officer Code of Conduct follow-up
- Use of Consultants and Contract Awards in Land and Property
- St Jude’s Primary School audit

5.6 Additionally, a further audit was in draft at the year-end with a provisional opinion of partial assurance:

- Home to School Transport

5.7 Whilst actions arising from these reviews will be followed-up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control.

Key Financial Systems

5.8 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council’s key financial systems, both corporate and departmental. Of

those completed during 2021/22, all of these have resulted in either substantial or reasonable assurance being provided over the control environment, with the exception of the LGPS Pensions Administration.

5.9 We dedicate a substantial resource from our annual plan to the audit of LGPS Pension Administration, recognising that this area is one in which historic control weaknesses require significant assurance activity. We continue to work closely with management of the Pension Turnaround Programme to provide assurance in areas of particular risk, recognising that whilst this still remains an area of concern management has in place a robust improvement programme to address weaknesses. We will continue to update the Audit and Governance Committee through our quarterly reporting as future audit work is concluded.

5.10 As of 31 March 2022, the audits of General Ledger, Payroll, Financial Assessments and Income Control, and Capital Budget Monitoring were still in progress and are due to be reported on in the first quarter of 2022/23.

Other Internal Audit Activity

5.11 During the year, Internal Audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Directorate Leadership Team and Senior Leadership Team meetings;
- Governance Panel;
- Risk Governance Group;
- Transformation Board and Transformation Network meetings; and
- Corporate Risk and Resilience Forum.

5.12 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption

5.13 During 2021/22, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the organisation. Details of all counter fraud and investigatory activity for the year, both proactive and reactive, have been summarised within a separate Counter Fraud Annual Report due to be presented alongside this Internal Audit annual report. Where relevant, the outcomes from this work have also been used to inform our annual internal audit opinion and future audit plans.

Amendments to the Audit Plan

5.14 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with

management, the following reviews and activities were added to the original audit plan during the year:

- Use of Consultant in Land and Property
- Department for Work and Pensions 'Searchlight' Compliance Audit
- LGPS Pension Fund Banking Controls
- Cash Collection Contract
- Your Fund Surrey Governance Processes
- River Thames Flood Alleviation Scheme
- Tree Management
- Infection Control Grant Compliance
- School Purchasing Cards
- Safe and Inventory Review
- Children's Panel Processes

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

- Covid-19 Track and Trace grant
- Norwell Case Management System – Application Audit
- Parking Review Process
- Income Loss Grant
- Road Safety
- Public Health Funding
- Pavement Horizon
- Risk Management Compliance Audit
- Placemaking (included within 2022/23 plan)
- Mental Health (included within 2022/23 plan)
- Transition of Children in Care to Adult Social Care (included within 2022/23 plan)
- EU Digitourism Grant
- SEND Transformation
- Accounts Receivable
- Accounts Payable

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the Internal Audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2021/22, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2021/22:

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

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

Key Service Targets

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

6.5 As reported a small number of outstanding reviews were nearing completion at year-end and there were a number of reports still in draft at the year end. Where this is the case, this is noted against the title of the audit in this report.

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

6.7 In addition to this annual summary, CLT and the Audit and Governance Committee will continue to receive performance information on Internal Audit throughout the year as part of our quarterly progress reports and corporate performance monitoring arrangements.

Internal Audit Performance Indicators 2020/21

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee (2020/21)	By end April*	G	Approved by Audit and Governance Committee on 22 March 2021.
	Annual Audit Report and Opinion (2019/20)	By end July	G	Approved by Audit and Governance Committee on 18 June 2021.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	We achieved delivery of 92.8% of the 2021/22 plan by 31 March 2022
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>January 2018 – External assessment by the South-West Audit Partnership gave an opinion of ‘Generally Conforms’: the highest of three possible rankings</p> <p>July 2021 - Internal Self-Assessment completed, no major areas of non-compliance with PSIAS identified.</p> <p>June 2021 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.</p> <p>January 2022 - Internal Quality Review completed, no major areas of non-</p>

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				<p>compliance with our own processes identified.</p> <p>Apr 2022 - Updated self-assessment against the standards within the PSIAS underway and preparations for the full independent external assessment in progress.</p>
	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	91% ¹

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

Summary of Opinions for Internal Audit Reports Issued During 2021/22

Substantial Assurance:*(Explanation of assurance levels, and key to directorates, provided at the bottom of this document)*

Audit Title	Directorate
Procure to Pay (20/21)	CR
Order to Cash (20/21)	CR
LAS LiquidLogic follow-up	HWASC

Reasonable Assurance:

Audit Title	Directorate
Placements	HWASC
Fuel Card Data Analytics	CR
Children's Services Data Integrity	CFL
Payroll	CR
IT Asset Management During COVID-19	CR
Information Governance (Remote Working)	CR
DWP Searchlight	CR
Risk Management (Governance Arrangements)	CR
Direct Payments	HWASC
Cash Collection Contract	CR
Email Communication (Personal/Sensitive Encryption)	CR
Altair Application Controls	CR
Public Sector Bodies Accessibility Regulations follow-up	PPG
OSHENS Application Controls	CPG
Revenue Budget Monitoring	CR
Corporate Governance	CR
Local Enterprise Partnerships follow-up	PPG
Single View of a Child (Finance and EMS Processes)	CFL
Your Fund Surrey (Governance)	CR
Income Control Grant	HWASC
Safe and Inventory Control	CR
Library Replacement System Application Control	CC
Surveillance Cameras follow-up	CR
Chandlers Field Primary School	CFL
St Paul's Primary School	CFL
West Ashstead Primary School	CFL
Clandon Church of England Primary School	CFL
Epsom Downs Primary School	CFL
Riverview Primary School	CFL
Newdigate Church of England Endowed School	CFL
Hythe Community School	CFL
Stepgates Community School	CFL

Audit Title	Directorate
Walsh Church of England Junior School	CFL
Kings International College	CFL
Ashford Primary School	CFL
Folly Hill School	CFL
Priory Church of England School	CFL
Ewhurst Infant School	CFL
The Chandler Church of England Junior School	CFL
Walsh Memorial Infant School	CFL
Furzefield School	CFL
St Peter's Church of England Primary School	CFL
St Jude's Church of England Junior School	CFL
Badshot Lea Village Infant School	CFL
Fellbridge Primary School	CFL
St Mary's Church of England School	CFL

Partial Assurance:

Audit Title	Directorate
SFRS Pensions Administration (20/21)	CPG/CR
LGPS Pensions Administration (20/21)	CR
Use of Consultants, and Contract Awards in Land and Property	CR
Code Of Conduct follow-up	CR
St Judes Primary School	CFL

Minimal Assurance:

Audit Title	Directorate
LGPS Pension Fund Banking Controls	CR

Grant Claims

Audit Title	Directorate
Bus Services Operators grant	ETI
COVID-19 Home-to-School Additional Funding grant	CFL
COVID-19 Travel Demand Management grant	ETI
COVID-19 Bus Service Support grant	ETI
Local Transport Capital Funding grant	ETI
Home to School Transportation grant	CFL
IMAGINE (EU)	PPG
Digi-Tourism grant (EU)	PPG
Urban Links To Landscape (EU)	PPG
Troubled Families grant (x4)	CFL
Public Health HIV PrEP grant	HWASC

Other Audit Activity Undertaken During 2021/22 (non-opinion, or position statement)

Audit Title	Directorate
COVID-19 System Changes (20/21)	CR
Unofficial School Funds	CFL
DB&I Position Statements (x9)	CR
SFRS Automatic Fire Alarms	CPG
Use of Consultancy in Land & Property	CR
Greener Future	ETI
Transformation Programme	CR
School Purchasing Cards	CFL

Directorate glossary

CC	Customers and Communities
CR	Corporate Resources
CFL	Children, Families and Learning
CPG	Corporate Protection Group
ETI	Environment, Transport & Infrastructure
HWASC	Health, Wellbeing and Adult Social Care
PPG	Partnerships, Prosperity and Growth

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.

Audits Completed in Quarter 4 (January to March 2022)

Revenue Budget Monitoring (2021/22)

The system for Revenue Budget Monitoring is deemed a key financial system and is audited annually.

The purpose of the audit was to provide assurance that controls were in place to meet the following objectives:

- The Council met its statutory requirements regarding revenue budget management;
- Governance arrangements were clear and understood by officers;
- Adequate revenue budget planning and forecasting lead to the delivery of the Council's strategic objectives;
- The budget approved was accurately reflected in the accounting system;
- Management information was adequate; and
- Agreed actions from the previous audit had been implemented.

We were able to give this system an overall opinion of **Substantial Assurance** as all key controls were in place as expected and operating effectively.

The format for the robust budget setting process in place, including an annual budget timetable, had been reviewed and brought together in an overarching document. Information within the system was found to be up to date, with assigned budget holders for each cost centre in line with the organisational structure.

We noted that budget management training was made available through the Finance Academy and were pleased to see an increase in coverage of the Budget Accountability Statements (the annual declaration by budget holders acknowledging the responsibilities and accountabilities delegated to them under Financial Regulations).

Pension Fund Banking Controls (2021/22)

As part of the Pensions Turnaround Programme, management identified weaknesses in banking arrangements for the LGPS scheme, arising from poor historical practices. As a result, Internal Audit was asked to undertake a review to better understand the inherent weaknesses.

This audit, an addition to our 2021/22 annual plan, set out to provide assurance that controls were in place to meet the following key objectives:

- Roles and responsibilities in respect of the pension fund bank account and allied accounting arrangements were clearly defined;
- The fund suspense account was subject to regular review with balances cleared in a timely manner;

- Income was processed promptly with both scheme member, and fund records, updated accordingly; and
- Expenditure was subject to necessary checks, with balances processed in a timely manner and records updated accordingly.

Our review identified a number of key control weakness within the arrangements in place:

- There were a number of different teams, including those outside of the pensions service, involved in day-to-day tasks relating to pension fund banking, hindering the ability for sufficient management oversight of the end-to-end process;
- Fund Administration had failed to invoice scheme employers for Compensatory Added Years liabilities (a historical, discretionary benefit, no longer awarded);
- Errors were found in a sample of transactions from the daily reconciliation of the pension fund bank account against the ledger;
- The pension fund suspense account held significant unresolved historical balances;
- At the time of our review the fund had not recharged for these legal or actuarial costs since the 2017/18 financial year;
- A set of invoices for a fund manager valued at £525k remained unpaid since 2017; and
- A spreadsheet used by the team to monitor the progress of transfers into the fund was in breach of GDPR requirements, and had data quality issues.

As a result of these findings, we gave an opinion of **Minimal Assurance**. The audit agreed seven high priority actions with management, for which appropriate responses have been agreed. A management briefing for the Audit and Governance Committee Chairman and Vice-Chairman on the agreed actions was also undertaken. We will undertake a follow-up of this audit in our 2022/23 plan to ensure agreed actions have been fully implemented.

Corporate Governance

The Council is required to produce an Annual Governance Statement, which sets out the governance structure of the Council and its key internal controls. Our review supported this process by providing assurance that there was an appropriate level of awareness of a sample of key policies within the organisation.

The specific purpose of the audit was to provide assurance that controls were in place to meet the following objectives:

- The Council had policies in place in key areas which were compliant with the required legal and regulatory standards;
- Key policy documents were publicised and made available to all employees and Members, as applicable;
- Key policies had a nominated officer responsible for ensuring policies remain current, subject to review, and were compliant with required legislation; and
- Both Members and officers were aware of their requirements and responsibilities in complying with key policies.

We also undertook a comparison of the Council's Code of Corporate Governance framework against those of similar local authorities. We found the framework to be consistent with those in place in the other authorities reviewed, with an adequate coverage of key policies to support the Council's activities and safeguard its assets.

For a sample of corporate policies we sought assurance through policy custodians to confirm that these policies were subject to periodic review. We then canvassed a sample of Members and employees to seek assurance that they were aware of, and compliant with, these particular policies.

Based on this work we identified some areas for improvement, notably:

- Access to online policies was dependent upon key word searches, which did not always identify the correct document;
- Policies varied in length and complexity, with some containing summaries and glossaries to aid understanding, but not all;
- Most policies were text-based documents, not all of which had linked contents tables or search functions, which hinders their ease of use and did not address the needs of all users (for example visual learners);
- Some policies solely referred to office-based working practices and had not been updated for remote working; and
- Training on policies is limited to the corporate induction process.

We agreed four actions with management, three of Medium Priority and one of Low, and gave the area under review an opinion of **Reasonable Assurance**.

Local Enterprise Partnerships follow-up

Local Enterprise Partnerships (LEPs) are voluntary partnerships between local authorities and businesses to help determine local economic priorities and lead economic growth within their local area. The Council is involved in two LEPs: Enterprise M3 (EM3) and Coast to Capital (C2C), between them delivering sixteen schemes totalling £56.45m.

Our previous audit of the Local Enterprise Partnerships (LEPs) reported an audit opinion of Partial Assurance due to weaknesses in the control environment. The primary purpose of this audit was to follow-up the agreed actions from our last audit with regard to the control objectives from the original review:

- Management identify, develop, and submit strong bids that put the Council in the best possible position of securing LEP funding;
- There were adequate governance, risk, and performance management arrangements in place to ensure that LEP funded schemes are delivered to time and budget; and
- Funding conditions for schemes were adhered to.

We were provided with evidence to demonstrate expected improvements, including the development of terms of references for key governance groups and an embedded escalation procedure through a designated Escalation Board.

Following our review we were able to improve the overall opinion to **Reasonable Assurance**. We also identified two areas in which further improvement could be made, in regard to risk management and post-project evaluation, and agreed actions with management in this regard.

Single View of a Child (Education Management System and Finance Processes)

The Single View of a Child (SVOAC) programme aims to fundamentally improve the way in which SCC manages education services for children. The programme includes the implementation of two Liquidlogic products: Early Years & Education System (EYES); and Liquidlogic Integrated Finance Technology (LIFT).

A previous Internal Audit report found that robust governance arrangements had been established since the launch of the project in September 2020. The purpose of this second review was to provide assurance that controls are in place to meet the following control objectives:

- Governance and risk management arrangements remained robust;
- User application testing (UAT) on systems was timely and included mechanisms to resolve issues;
- Review of system configuration ensured the system remained fit for purpose;
- A strategy was in place to deliver all aspects of data migration to the new systems;
- Case document storage arrangements in the new system ensured both business and statutory requirements were met; and
- Engagement with, and training of, staff across the service was being achieved.

Delivery of the programme continues at a steady pace. Continued robust governance arrangements and high level of transparency has enabled the programme to progress despite some challenges emerging over the last nine months.

Key controls were found to be in place, and operating effectively. Since Adoption and Fostering payments were transferred to LIFT at the beginning of September 2021, over £107k of savings had been identified by eliminating unnecessary payments. Newly developed Tableau reports for LIFT provided good quality management information.

By the end of the SVOAC programme, the council will have five Liquidlogic systems in place in CFL or Adult Social Care. We are the first council to fully implement LIFT and a considerable amount of development work has taken place, benefiting both the Council and Liquidlogic.

We noted that Liquidlogic's delivery had been inconsistent, impacting both time and budget contingencies, but not to the extent that the programme is at risk of non-delivery. Governance arrangements were sufficiently robust to overcome these challenges and risks as the programme moved into testing and implementation stages.

Based on our assessment of the programme's control environment we have given an opinion of **Reasonable Assurance**. No actions were necessary to agree with management.

Your Fund Surrey (Governance Arrangements)

Your Fund Surrey (YFS) is a council-led grant initiative, awarding £100m of capital funding to benefit communities across the county. The focus of the funding is to bring projects to life which benefit the wider community and leave a lasting legacy.

Internal Audit has provided ad-hoc advice to the team responsible over the past 18 months through the development phase of the scheme. This audit review provided assurance over governance arrangements relating to YFS, specifically:

- The scheme's Advisory Panel had a clear mandate for the assessment of funding applications against set criteria, allowing equitable and clear decision-making;
- Funding approval limits matched the council's Scheme of Delegation, and additional criteria was set for those applications seeking significant funding values; and
- Applications received were subject to appropriate due diligence checks.

Our review found the control environment to be robust: funding approval limits were more stringent than under the Scheme of Delegation to ensure a higher degree of scrutiny given the high profile of the fund.

Whilst the application route is the same for all, a greater body of evidence is sought for projects that carry higher financial risk. We identified that a robust set of application and processing controls were in place to prevent a fraudulent application being successful.

Our review did identify some areas for improvement, notably for further engagement with communities in areas of deprivation and lower social mobility, and signposting unsuccessful bidders to other sources of funding. Overall, having agreed actions with management to address these findings, we gave this area an opinion of **Reasonable Assurance**.

Library Management System Application Audit

The council is a member of The Libraries Consortium (TLC), a rapidly expanding network of public library authorities in the UK that shares technology, stock, and expertise to increase impact at reduced costs.

Surrey Library service were implementing a new Library Management System (LMS), SirsiDynix Symphony, designed to support libraries into the future. 'Symphony' handles all library workflows with specially designed modules.

This audit was undertaken to review the application controls operating within the new system, focused on the following key control objectives:

- System access and permissions were restricted to authorised individuals;
- Data processed through interfaces was authorised, accurate, complete, securely processed and written to the appropriate file;
- System outputs were complete, accurate, reliable, and timely;
- System updates and enhancements were consistently performed and subject to sufficient testing and authorisation before implementation; and

- Appropriate arrangements were in place to manage system changes.

Following a review of the controls in place, we were able to provide an opinion of **Reasonable Assurance** for the following reasons:

- System access to both the library applications was restricted, with access and permissions granted through the provider's server;
- Controls ensured super-user access was restricted appropriately;
- Controls ensured automatic authentication of borrowers within the library system;
- Controls were in place to ensure system outputs were reconciled and validated; and
- Arrangements for reviewing, testing, and approving system enhancements existed.

We agreed one action of low priority relating to the review of system logs to identify any suspicious or unexpected behaviour by the system administrator.

Infection Control Grant

The Infection Control Fund (ICF) was introduced by the Department of Health & Social Care (DHSC) in May 2020 primarily to reduce the rate of COVID-19 transmission within and between care settings. In April 2021, the ICF was consolidated with the existing Rapid Testing Fund (RTF). At the time of our audit allocations for the council to disburse to care providers totalled £45m for ICF, with a further £12m for RTF.

The purpose of our audit was to provide assurance that controls were in place to meet the following objectives:

- Robust governance arrangements help ensure the grant funding criteria are met;
- Care providers could evidence expenditure which met the requirements of criteria;
- Arrangements were in place identifying care providers had met these requirements, and where overpayment had occurred providers were contacted so that the council was not liable for any related debt.

We found the council had been compliant in most respects of the funding conditions. We also identified that providers had been billed where overpayments have been identified, albeit this is an ongoing activity into 2022.

We identified some areas for improvement including the need to have better demonstrated provider compliance with grant conditions prior to the release of funding to them.

Overall we were able to give an opinion of **Reasonable Assurance** for this area of review, and agreed three actions with management for improvement.

Safe and Inventory Control

This review was an addition to our 2021/22 Internal Audit Plan following the identification of risks associated with the decommissioning of County Hall and the general management of council assets and inventory, including PPE stock.

The purpose of the audit was to provide assurance that controls were in place to meet the following control objectives:

- There were robust arrangements in place to manage heritage assets, documents, and PPE stock;
- There were effective systems in place to manage safes and their contents; and
- Clear guidance was in place regarding the management of assets and property.

We were able to provide **Substantial Assurance** over the controls operating within the area under review because:

- There was a clear policy governing the management of safes and inventory;
- Across the services we contacted, management were aware of their responsibilities and had robust processes in place to manage risks;
- Services assessed at highest risk of significant loss demonstrated they had effective systems in place;
- Robust arrangements for the secure storage of PPE stocks were in place, with detailed monthly tracking of stock and its distribution;
- Records of key holder access across the estate were up to date and demonstrated restricted access protocols; and
- An asset register recorded heritage items and their intended distribution during County Hall's de-commissioning.

We agreed two actions with management in relation to removing duplicate entries from the asset register, and in respect of a small number of assets being in-situ on the Woodhatch site when recorded as being in Crown Stores.

Surveillance Cameras follow-up

An audit of Surveillance Cameras was undertaken in 2019 and gave an opinion of Partial Assurance, identifying areas of non-compliance with the Surveillance Camera Code of Practice. An initial follow-up in 2020 remained Partial Assurance, as implementation of agreed actions had been delayed due to the pandemic.

The purpose of this second follow-up audit was to provide assurance that nine agreed actions from the original audit had now been fully implemented.

We identified that satisfactory progress had now been made against the actions agreed in November 2020, and we were content that management controls were appropriate to ensure risks were managed to meet statutory obligations and the requirements of the Code of Practice.

As such, we were able to give a revised opinion of **Reasonable Assurance** over this area.

Greener Future

The council's strategic priority of 'enabling a greener future' is underpinned by the Climate Change Strategy (CCS), which was published in 2020. The strategy requires action by

services across the council and is supported by numerous programmes, including the national Net Zero by 2030 programme. We were involved in the launch of 'Net Zero' in early 2021 and our discussions included consideration of how to effectively evaluate the preparedness of the council to deliver the CCS and Net Zero.

We carried out a preliminary review of how well key council policies align with and promote delivery of the CCS. Given the scale of the strategy, and impact of the pandemic on factors that influence climate change, we agreed to postpone forming an opinion until delivery of the strategy was fully established.

DB&I Programme Support

We continue to provide independent advice and support to this major change programme through attendance at the Programme Board and by providing feedback to the Board on key activities through non-opinion audits.

Whilst acknowledging the work in this area is not complete, some specific concerns were raised with the Board, being:

- The proposed audit trail cannot be used to log all changes as performance is affected, so a risk-based approach needs to be adopted to consider which areas should be logged;
- The ongoing system support arrangements and any additional resources to support go-live need to be defined and put in place;
- Arrangements to ensure all local customisation of the system continues to function as part of any upgrade should be put in place;
- Local system design is not documented consistently, impacting the risk that the authority cannot support its own system post Go-Live and HyperCare; and
- Whilst arrangements are in place to incorporate the new system into the corporate business continuity planning arrangements, this work had not been completed by year-end.

Further work is planned in 2022/23 to support the implementation of the new systems, including a review of the key controls within the control environment.

School Audits

In late quarter two, we began delivery of a comprehensive programme of school audits to provide assurance both to council and school management that the control environment within maintained schools was robust.

We have a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls within the control environment:

- Governance structures were in place and operated to ensure there was independent oversight and challenge by the Governing Body;
- Decision making was transparent, well-documented and free from bias;
- The school operated within its budget through effective financial planning;

- Unauthorised people did not have access to pupils, systems or the site;
- Staff were paid in accordance with the schools pay policy;
- Expenditure was controlled and funds used for an educational purpose;
- Unofficial funds were held securely and used in accordance with their agreed purpose; and
- Security arrangements kept data and assets secure and were compliant with data protection legislation.

At the time of writing, school audits continue to be undertaken under remote working arrangements.

A total of 12 school audits were delivered in quarter four. The table below shows a summary of which schools we have audited, together with the final level of assurance reported to them.

Name of School	Audit Opinion
Badshot Lea Village Infant School	Reasonable Assurance
Buckland Primary School	Reasonable Assurance
Ewhurst C of E Aided Infant School	Reasonable Assurance
Felbridge Primary School	Reasonable Assurance
Folly Hill Infant School	Reasonable Assurance
Furzefield Primary School	Reasonable Assurance
St Jude's C of E Infant School	Reasonable Assurance
St Mary's C of E (Voluntary Controlled) Infant School	Reasonable Assurance
St Peter's C of E Primary School	Reasonable Assurance
The Chandler C of E Junior School	Reasonable Assurance
The Priory School	Reasonable Assurance
Walsh Memorial C of E Infant School	Reasonable Assurance

As well as undertaking routine audit work, we provided two training and update sessions for Governors during the quarter, providing them with details of the audit programme and ways that they can support their schools to implement and maintain robust controls. At the end of quarter four, we liaised with stakeholders to discuss the school audit plan for 2022/23 as part of which we aim to undertake approximately 40 school audits.

Grant Certification

During quarter four the following three grant claims were successfully certified in accordance with Government requirements:

- Home to School Transport grant - £5,621,141
- Bus Service Support grant - £3,896,827
- Troubled Families grant - £190,400

Counter Fraud and Investigation Activities

Counter Fraud Activities

We continue to liaise with services to ensure that matches from the National Fraud Initiative are being reviewed and processed.

A countywide Single Person Discount review is currently underway and following award of the contract we continue to work in partnership with District and Boroughs to coordinate and deliver the review.

We continue to monitor intel alerts and share information with relevant services.

Summary of Completed Investigations

Working while off Sick

We received two separate allegations of staff running their own businesses while signed-off sick from work.

In the first case, we provided support to a service who received a referral that a member of staff had started their own business while signed-off work and in receipt of sick pay. On investigation it was found that the role was not in conflict with the officer's substantive position, so no further action was taken.

In the second case, it was alleged that a member of staff had started an online business when signed off sick, using SCC equipment to run it. We identified from network data that SCC equipment was being used but the hours of use were outside of their contractual hours and the frequency of use was low. The member of staff was issued a warning and reminded of their obligations in the Officer Code of Conduct.

False Identity

Advice was provided following an allegation that a member of staff was working under a false identity and had a false DBS check. The employment was terminated, and the individual referred to the police.

Early Years Grant

We provided advice following Information Governance concerns being raised around a voluntary body funded by the Early Years Grant. Advice on controls was provided to ensure that the grant-funded body put in place adequate IT security controls, training, and incident breach reporting mechanisms.

Your Fund Surrey

Following an application received by Your Fund Surrey, we were asked to provide advice in respect of a potential procurement irregularity centred around the submission of a quotation from a preferred supplier. Following our review, a decision was made not to award the grant. The applicant was advised to reapply, ensuring that the Public Sector Procurement Guidelines were followed.

Misuse of Searchlight

We provided support following notification from the Department for Work and Pensions (DWP) that a member of staff had misused the DWP system, Searchlight. During the investigation, we identified that the same member of staff had also potentially misused other council systems to look up personal data. A disciplinary hearing date was set, but the individual resigned prior to the hearing.

Misuse of a Purchase Card

We investigated a member of staff for the misuse of a corporate purchase card. The investigation identified that the member of staff had used the card for personal spend totalling £5,050.

It was also identified that the same individual had a vehicle leased to them through the council's salary sacrifice scheme and they had failed to pay fines of £2,200 relating to the use of the vehicle, which were being issued to the council.

Following our investigation, the member of staff repaid the £5,050 and arranged to pay the outstanding fines. In addition, the lease vehicle was returned to SCC and the individual was dismissed with the case being referred to the police.

Abuse of Position

We provided support for a whistleblowing allegation where it was alleged that a carer had set up a business that was in conflict with their substantive role. Following the investigation and a disciplinary hearing, the member of staff was issued a final written warning.

Conflict of Interest and Nepotism

Initial enquiries were conducted following an allegation of nepotism and a conflict of interest, during contract awards, within the Land and Property Service. We did not identify any irregular practice in the award of the contracts or appointment of officers, and consequently no further action was required.

Conflict of Interest and Bribery

We undertook an investigation following a referral alleging that three social workers were connected through outside financial interests, with this being in conflict with their substantive roles. A review of the recruitment process for the named members of staff confirmed that the appointments were compliant with the expected corporate processes. Furthermore, no conflicts of interest were identified, and the case was closed.

Action Tracking

All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. For the purpose of this exercise we seek written assurance only from management that actions have been completed. Evidence of implementation is sought during formal follow-up audits following lower assurance audits.

All high-priority actions due to be implemented by management by the end of quarter four had been implemented.

Amendments to the Annual Audit Plan

In accordance with professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk.

No further audits were added to the agreed audit plan during this final quarter. Audits that were been removed from the plan in the quarter, either being cancelled or deferred until 2022/23, are shown in the table below. Changes to the plan have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits.

Planned Audit	Rationale for removal or deferment
Risk Management	A proposed second audit of risk management arrangements in 2021/22 was deferred to summer 2022 on request of the service, to allow new arrangements to bed in. Our original opinion on the revised framework was of Reasonable Assurance.
Placemaking (ETI)	This audit did not start in 2021/22 due to increased resources being allocated to DB&I Programme Support. With the agreement of management it is being reviewed within an audit of the Planning service as part of the 2022/23 annual plan.
Mental Health	Management requested we move this audit into the 2022/23 plan to allow for additional time for revised service arrangements to embed.
Transition of Children in Care to Adult Social Care	This audit did not start in 2021/22 due to increased resources being allocated to DB&I Programme Support. It has been carried forward to the 2022/23 plan.
EU Digitourism Grant	Phase 1 of this grant ended in summer 2021 and the next required audit (Phase 2) falls in 2022/23. This

Planned Audit	Rationale for removal or deferment
	had not been communicated to Internal Audit so the audit remained in the plan until quarter 4.
SEND Transformation	This audit was superseded in-year by the addition in late quarter 3 of the Children's Panel Process audit.
Accounts Receivable	The last audit of this key financial system was reported in June 2021 with an opinion of Substantial Assurance, so this audit was removed from the plan on the basis of risk, and having been reviewed within the financial year.
Accounts Payable	As above.



Audit & Governance Committee
13 June 2022

Counter Fraud Annual Report 2021/22

Purpose of the report:

The report covers the counter fraud work completed in the year from 1 April 2021 to 31 March 2022 in accordance with the Counter Fraud Strategy and Framework.

Recommendations:

It is recommended that:

1. The Committee note the fraud activity completed during 1 April 2021 to 31 March 2022.

Introduction:

2. The Council's Internal Audit team investigates allegations of fraud and irregularity against the Council and is committed to upholding the Council's Counter Fraud Strategy and Framework. The Council's strategy is aligned to the Fighting Fraud and Corruption Locally Strategy 2020 which is the governments 'blueprint' for tackling fraud in Local Government.
3. Within Internal Audit, the Counter Fraud Partnership Team comprises four auditors with counter fraud expertise who work across all departments. Together they provide a dedicated proactive counter fraud and responsive investigation function. It also works on behalf of the Council to ensure that its counter-fraud arrangements are robust by raising awareness of fraud risk, reviewing and improving fraud risk management arrangements, using data to actively identify fraudulent activity and monitoring the extent to which the Council is impacted by fraud. Where fraud is suspected or identified, the team provides a professional investigation service and advises on control measures that will prevent recurrence.

4. The Counter Fraud Annual Report outlines:
 - Details of the work undertaken during the period 1 April 2021 to 31 March 2022;
 - Outcomes from investigation activities; and
 - Other counter fraud activity.

Conclusions:

5. The committee is asked to note the report.

Financial and value for money implications

6. Counter Fraud activities were delivered within existing budgetary resources.

Equalities and Diversity Implications

7. There are no direct equalities implications.

Risk Management Implications

8. Fraud risk will continue to be monitored and assessed throughout the year.

Next steps:

The Chief Internal Auditor and Audit Manager (Counter Fraud) will continue to update management and members on the completion of counter fraud activities throughout the year.

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Contact details: 07779 455501, simon.white@surreycc.gov.uk

Sources/background papers:

- Counter Fraud Strategy and Framework

INTERNAL AUDIT COUNTER FRAUD REPORT 2021/2022

1. Introduction

1.1 The Council's Financial Regulations require all officers and members of the Council to notify the Chief Internal Auditor of any matter that involves, or is thought to involve, corruption or financial irregularity in the exercise of the functions of the Council. Internal Audit will in turn pursue such investigations in line with the Counter Fraud Strategy and Framework.

1.2 Within the Orbis Internal Audit Service, the Counter Fraud partnership team provides resource and experience to support SCC with both proactive and responsive support relating to any instances of financial irregularities and fraud related risks.

1.3 The annual Internal Audit Plan for 2021/22 carried within it a contingency budget for 'Irregularity and Special Investigations' of 120 days. This contingency covered time to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for proactive counter fraud work and to support the National Fraud Initiative (NFI), detailed in the latter part of this report.

1.4 Internal Audit reports following irregularity investigations typically help to provide independent evidence to support (or not) a management case against an employee under formal disciplinary procedures, to support potential criminal prosecutions and to help strengthen controls in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential and sensitive nature.

2. Summary of investigations between 1 April 2022 and 31 March 2021

Resources

2.1 During the 2021/22 financial year, a total of ten Internal Audit officers charged time to work on irregularity investigations amounting to 149.2 days. This includes preliminary assessments, liaison with departments, fieldwork, reporting and subsequent support for disciplinary and criminal activities.

Number and Types of Investigations

2.2 A total of 22 allegations were received in the financial year (8 in the first half of the year and 14 in the second half). For comparison, 18 allegations were received in the previous financial year.

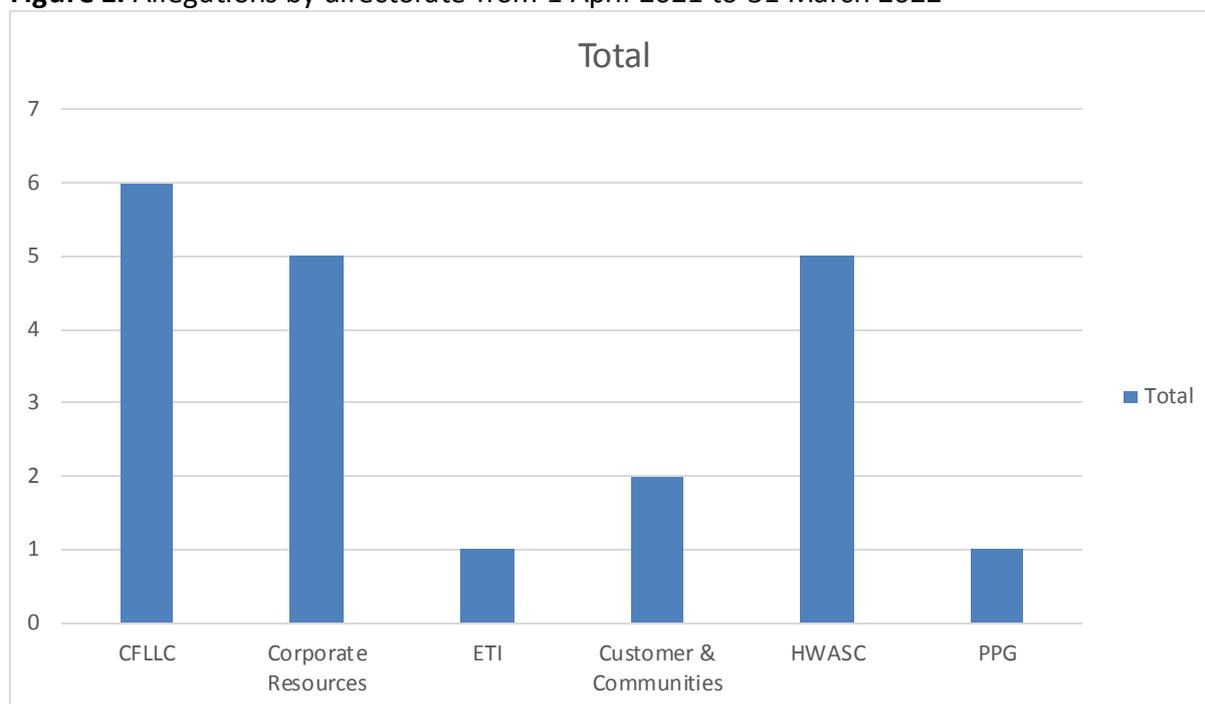
2.3 New allegations were brought to the attention of Internal Audit by the following methods:

- 14 were raised by Council management;
- 3 originated from an external source to the Council;
- 5 were raised through confidential reporting.

2.4 Full details of the categories by which fraud and irregularity investigations are reported are attached at Appendix A. All proven fraudulent or irregular behaviour by officers may be considered misconduct; similarly, poor controls increase the likelihood of fraud occurring. The categories therefore reflect alleged specific types of fraud or irregularity.

2.5 The number of all recorded allegations across the Council’s directorates is shown in Figure 1, while Figure 2 shows the categories of allegations received.

Figure 1. Allegations by directorate from 1 April 2021 to 31 March 2022



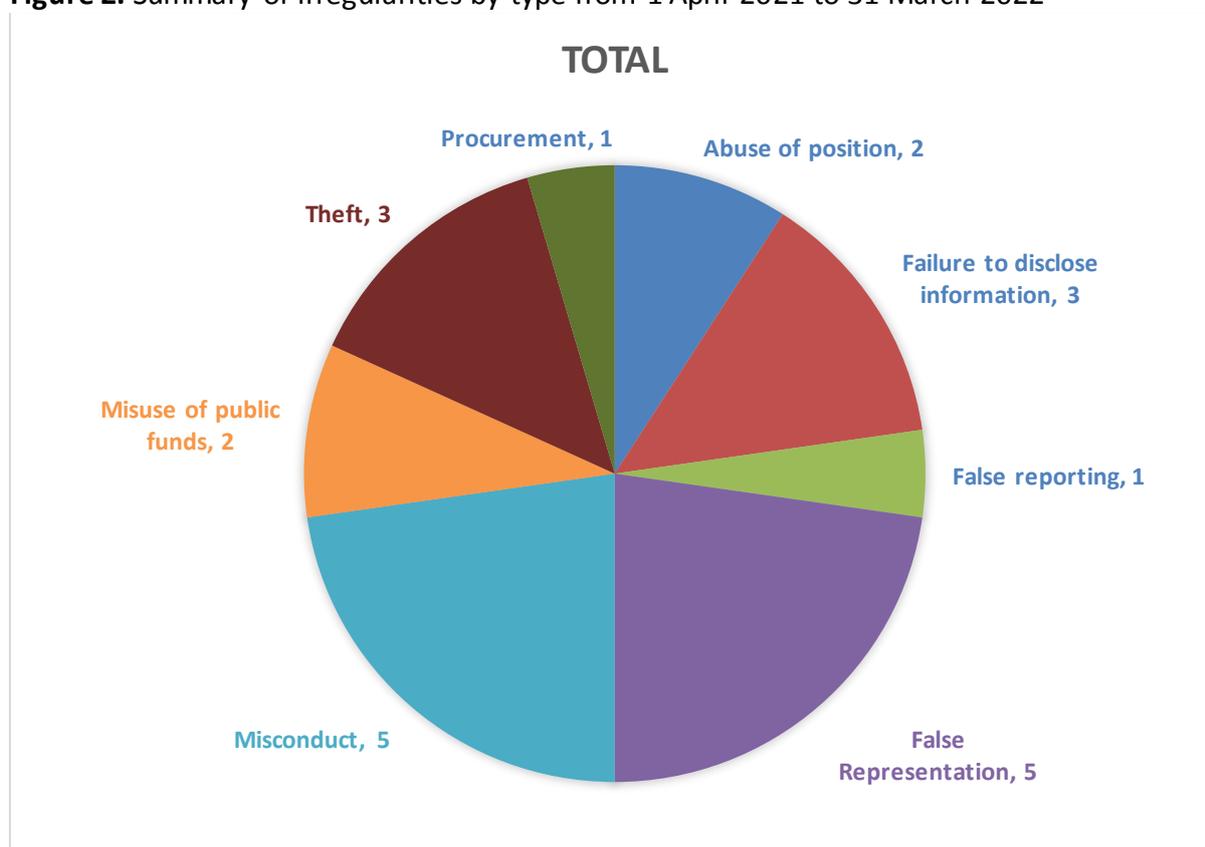
CFLLC – Children, Families, Lifelong Learning and Culture

ETI – Environment, Transport and Infrastructure

HWASC – Health, Wellbeing and Adult Social Care

PPG – Partnerships, Prosperity and Growth

Figure 2. Summary of irregularities by type from 1 April 2021 to 31 March 2022



2.6 Of the allegations received, 2 were closed with no action taken, 3 were passed to an external body, 13 were taken forward for investigation by Internal Audit or support was provided to a management investigation, and 4 were conduct or capability issues dealt by management with support from HR where appropriate.

2.7 The following paragraphs provide a summary of the investigation activity completed by Internal Audit in the last 12 months.

2.7.1 **Safeguarding Concern** - we provided Adult Social Care with advice and support in writing a witness statement in respect of a safeguarding concern that has been reported to the police.

2.7.2 **Misconduct and Safeguarding Concern** - we provided Adult Social Care with support following an allegation relating to the professional conduct of a social worker. The employee has now left the employment of the Council. The matter has also been referred to the police and Social Work England.

2.7.3 **Cheque Fraud** - we have provided Business Operations with advice and support following notification from HSBC of an attempted cheque fraud. Business Operations continue to monitor cheque handling to identify any further issues.

2.7.4 **Insolvency Arrangements** - we provided advice to the Payments Team in relation to invoices due to a supplier following their liquidation.

2.7.5 **Community Interest Companies** - we supported a management investigation following a referral that an officer had set up two community interest companies, which were undeclared and represented a potential conflict of interest with their substantive role. Following the investigation (which was conducted in collaboration with an independent investigating manager), disciplinary action was taken against the officer concerned.

2.7.6 **Secondary Employment** - we were alerted to the potential overlap in employment of an individual engaged on an interim contract with SCC. Following investigation, the contract was terminated, and compensation agreed with the employment agency. The second employer (who had a direct contract of employment with the individual) was advised to refer the matter to the police.

2.7.7 **Working while sick** - we have recently received two separate allegations of staff running their own businesses while signed off work sick. In the first case, a referral was received that a member of staff had started their own business while signed off work as sick. Following an investigation, it was found that the role was not in conflict with their employed position and no further action was taken. In the second case, it was alleged that the member of staff had started an online business while signed off sick. It was also alleged that the member of staff was using SCC equipment to run the business. A review of the member of staff's network activity and email use identified that SCC equipment was being used. However, the hours of use were outside the member of staff's contractual hours and the frequency of use suggested that this was a part time job or hobby. The member of staff was issued a warning and reminded of their obligations in the Officer Code of Conduct.

- 2.7.8 **False Identity** - we provided advice regarding control measures following an allegation that a member of staff was working under a false identity and with a false DBS check. The position was terminated, and the individual is subject to an active police investigation.
- 2.7.9 **Early Years Grant** - we provided advice following Information Governance concerns being raised around a voluntary body funded by the Early Years Grant. Control advice was provided to ensure that the grant funded body put in place adequate IT security controls, training, and incident breach reporting mechanisms.
- 2.7.10 **Grant Funding** - Following an application to Your Fund Surrey, we were asked to provide advice in respect of a potential procurement irregularity, including the submission of a quote from a preferred supplier. Following a review of the procurement documents and a meeting with the S151 Officer, a decision was made not to award the grant. The applicant was advised to reapply to the fund ensuring that the correct Public Sector Procurement Guidelines are followed.
- 2.7.11 **Systems Misuse** - we provided support following notification from the Department for Work and Pensions (DWP) that a member of staff had misused a DWP system, Searchlight. During the investigation, it came to light that the same member of staff had also potentially misused other Council systems to look up personal details. A disciplinary hearing date was set to consider the misconduct, however the member of staff resigned prior to the hearing.
- 2.7.12 **Misuse of a Purchase Card** - we investigated a member of staff for the misuse of a Council Purchase Card. The investigation identified that the member of staff had used the Purchase Card for personal spend totalling £5,050. It was also identified that the same member of staff had a vehicle leased to them through a salary sacrifice scheme with the Council. The member of staff had failed to pay fines relating to the use of the vehicle totalling £2,200, which were being issued to the Council. Following the investigation, the member of staff repaid the £5,050 and arranged to pay the outstanding fines. In addition, the lease vehicle was returned to SCC. The member of staff was dismissed, and the case was referred to the police.
- 2.7.13 **Outside Interest** - we provided support in a whistleblowing allegation where it was alleged that a carer had set up a business that was in competition with their substantive role at SCC. Following the investigation and a hearing, the member of staff was issued a final written warning.
- 2.7.14 **Unfair Appointment and Award of Contract** – we conducted initial enquiries following an allegation of a conflict of interest when awarding a contract and potential nepotism within the Land and Property Service. No irregularity issues were found in the award of the contracts or appointment of officers and no further action was required following the results of these enquiries.
- 2.7.15 **Outside Interest** - we conducted an investigation following a referral alleging that three social workers were connected through outside financial interests, and this was in conflict with their substantive roles. A review of the recruitment process for the named members of staff confirmed that the appointments were compliant with the expected corporate processes. Furthermore, no conflict of interest or financial irregularity was identified, and the case was closed.

3. Proactive fraud prevention and awareness work

3.1 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. The following paragraphs outline some of the proactive work undertaken in the past year.

3.2 The Council has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting, and deterring fraud. Internal Audit has reviewed the sovereign strategy to align with best practice and to ensure a robust and consistent approach to tackling fraud. The strategy was updated to include revisions to the Fighting Fraud and Corruption Locally framework and was approved by the Audit and Governance Committee in September 2021.

3.3 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats. This includes potential threats to payroll, staff frauds relating to home working and the ever-increasing cyber threat.

3.4 One of the key controls in fighting fraud is having a strong culture in place with staff vigilant to the threat of fraud. In the past year, Fraud Awareness sessions have been delivered to Business Operations focussing on the risks to the Council of Bank Mandate Fraud and Cyber Fraud. In addition, the team have published fraud bulletins raising awareness to emerging threats, in particular risks from the COVID19 pandemic. These have been published on the intranet and shared with high-risk service areas. The team continue to monitor intel alerts and work closely with neighbouring councils to share intelligence and best practice.

3.5 During the year the team conducted proactive work in partnership with the Blue Badge Team, which included a trial enforcement day to gauge the scale of potential Blue Badge misuse in the County. The pilot was conducted in December 2021 and resulted in the seizure of six badges that were being used without the badge holder present, including one where the badge holder had passed away months prior. A business case is currently being developed to secure funding for future exercises.

National Fraud Initiative

3.5 The results from the biennial National Fraud Initiative exercise, overseen by the Cabinet Office, were received in January 2021. The exercise compared Council records relating to payroll, pensions, creditors, Blue Badges and concessionary travel passes, with data from 1,300 public and private sector organisations used to help prevent and detect fraud and error.

3.6 The results from the data matching released to the Council flagged over 34,400 matches. As well as directly undertaking reviews of the matches for evidence of fraud and error, Internal Audit have been liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

3.7 The results from the review of over 34,400 data matches include:

- No issues from matches relating to Payroll to Payroll, Procurement to Payroll, or Payroll to Companies House (Director);
- The cancellation of over 7,291 concessionary travel passes where the pass holder had passed away, with the cabinet office estimated saving from this being over £174,984;
- Life certification checks are being carried out on pension recipients who have been matched to DWP deceased data; and
- Over 22,000 data matches were received relating to potential duplicate creditors. The highest quality matches were prioritised and a review of over 1,000 of these matches indicated 'false positives', and the matches were closed. Information has been shared with the Finance and Purchasing team to improve data quality.

Partnership working

3.8 We meet regularly with partners across the southeast to discuss emerging threats and share intelligence. More specifically for the Surrey area, the team are working with district and borough colleagues to explore opportunities for further developing countywide data matching capabilities for the prevention and detection of fraud. This includes a countywide Single Person Discount review that is currently underway with district and borough colleagues.

Reporting categories for irregularities

Reporting category	Description	Examples (not an exhaustive list)	Legislation / Policies (examples)
False representation	Knowingly making an untrue or misleading representation to make gain, cause loss or expose the Council to the risk of loss	Submitting incorrect expense claims; falsely claiming to hold a qualification	Fraud Act 2006
Failure to disclose information	Intentionally withholding information to make gain, cause loss or expose the Council to the risk of loss	Failing to declare pecuniary interests, or assets as part of a means tested assessment	
Abuse of position	Use of position to act against, or fail to safeguard, the interests of the Council or Surrey's residents	Nepotism; financial abuse of individuals receiving social care	
Theft	Misappropriation of assets (often cash) belonging to the Council or individuals under the Council's care	Removing cash from safes; removing individuals' personal items in care homes	Theft Act 1968
Corruption	Offering, giving, seeking or accepting any inducement or reward which may influence a person's actions, or to gain a commercial or contractual advantage	Accepting money to ensure a contract is awarded to a particular supplier	Bribery Act 2010
False reporting	Intentional manipulation of financial or non-financial information to distort or provide misleading reports	Falsifying statistics to ensure performance targets are met; delaying payments to distort financial position	Theft Act 1968; Financial Regulations; Procurement Standing Orders
Misuse of public funds	The use of public funds for ultra vires expenditure or expenditure for purposes other than those intended	Officers misusing grant funding; individuals misusing social care direct payments	
Procurement	Any matter relating to the dishonest procurement of goods and services by internal or external persons	Breach of the Procurement Standing Orders; collusive tendering; falsifying quotations	
Misconduct	Failure to act in accordance with the Code of Conduct, Council policies or management instructions	Undertaking additional work during contracted hours; inappropriate	Code of Conduct;

		use of Council assets and equipment	IT Security Policy
Poor Control	Weak local or corporate arrangements that result in the loss of Council assets or a breach of Council policy	Storing a key to a safe in the immediate vicinity of the safe	

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AUDIT & GOVERNANCE COMMITTEE
13 June 2022

Independent External Assessment of Orbis Internal Audit

SUMMARY AND PURPOSE:

The purpose of this paper is to obtain approval from the Audit and Governance Committee to commission the Chartered Institute of Internal Auditors to undertake the independent external assessment of Orbis Internal Audit in accordance with Public Sector Internal Audit Standards (PSIAS).

RECOMMENDATIONS:

Members are asked to agree to the appointment of the Chartered Institute of Internal Auditors to carry out the independent external assessment of Orbis Internal Audit in accordance with Public Sector Internal Audit Standards (PSIAS).

BACKGROUND:

1. The PSIAS are the standards that govern the delivery of Internal Audit in local government, which recommend that internal audit teams commission an external examination of their internal self-assessment process by a qualified, independent assessor or assessment team at least once every five years.
2. The last such review of Orbis Internal Audit was completed in 2018, the first year of the partnership's formation, by the South West Audit Partnership. The review team at the time concluded that Orbis Internal Audit 'generally conforms with the Standards and the Code of Ethics', representing the highest level of conformance available.
3. The next review is therefore due before the end of March 2023 and it is now proposed to commission the Chartered Institute of Internal Auditors (IIA) to carry out this work. The IIA is the only professional membership body exclusively for internal auditors in the UK and Ireland, and is responsible for producing the overall professional standards upon which the PSIAS are based.
4. A formal proposal setting out the scope and methodology for the review is attached as Annexe 1 and, should this be agreed, the assessment is likely to take place towards the end of the calendar year. As explained within the document, the review will involve a detailed assessment of Orbis Internal Audit practices as well as a range of interviews with key stakeholders from across the partner organisations, including senior officers and members of audit committees.
5. Upon completion, the assessment team will provide a detailed report concluding on the service's conformance with the professional standards and any recommendations for improvement. This document will of course be reported back to each

organisation's senior management team and audit committee upon finalisation, along with details of any planned actions in response to any recommendations arising.

ANALYSIS AND CONSIDERATION OF ALTERNATIVE OPTIONS:

6. The requirement for an independent external assessment is mandatory under PSIAS and this review is now due before the end of March 2023. The cost of the assessment is covered within the existing Orbis Internal Audit budget for 2022/2023.

CONCLUSION:

7. The independent external assessment of internal audit at least once every five years is a mandatory requirement under professional standards and this review of Orbis Internal Audit is now due before the end of March 2023. Approval is being sought to commission the IIA to carry out this review as the only professional membership body exclusively for internal auditors in the UK and Ireland. The IIA are also responsible for producing the overall professional standards upon which the PSIAS are based so are ideally placed to undertake this work.

IMPLICATIONS:

8. Financial Equalities
Risk management and value for money
9. The cost of the external assessment is contained within the existing Orbis Internal Audit budget and is therefore funded by all the Orbis partner authorities based on existing financial contributions. Whilst the charge for the review is commercially sensitive, the value is within the financial thresholds of Procurement Standing Orders to enable the work to be commissioned based on a single quotation.
10. There are no other direct implications (relating to finance, legality, equalities, risk management or value for money) arising from this report.

WHAT HAPPENS NEXT:

10. Following approval of this proposal by the Audit and Governance Committee the IIA proposal will be taken forward for the delivery of the external assessment later in 2022.

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SUPPORTING PAPERS: Annex A: IIA – Validated Self-Assessment Proposal for Orbis Internal Audit



Chartered Institute of
Internal Auditors

Proposal

A Validated Self-Assessment of Internal Audit at ORBIS

03 May 2022

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1

Objectives of the Review

ORBIS has expressed its wish to commission an external validation of their own self-assessment to receive an assessment of their conformance to the IIA's *International Standards* and the Public Sector Internal Audit Standards (PSIAS).

By engaging with the Chartered IIA, you are ensuring you receive a truly independent, tailored assessment from an organisation that has no interest beyond promoting and developing the profession of internal audit. We have no interest in trying to sell additional services or offering alternative solutions to the delivery of internal audit.

The review will cover the work that is completed for the following entities:

- Surrey County Council
- East Sussex County Council
- Brighton & Hove City Council
- Horsham District Council
- Elmbridge Borough Council
- East Sussex Fire Authority
- South Downs National Park Authority

The outcome of the review will:

- Assess how well your internal audit service conforms to the PSIAS and the International Standards.
- Evaluate performance in light of your internal audit charter and expectations of the Audit Committees and executive management.
- Identify opportunities to improve performance and increase the value of internal audit to the organisations.
- Benchmark your activities against best practice.
- Assess your profile within the organisations.

As the standard-setter, the Chartered IIA is ideally placed to conduct a review of your operation. We will place a highly qualified review team on this project. All our review panel members are independent internal audit experts with wide-ranging experience across both the public and private sectors, many with non-executive director experience.

2

Credibility and Ability

A commitment to the continual review and improvement of the internal audit activity is a vital aspect of earning and maintaining credibility and trust among its stakeholders. The IIA International Standards contains an obligation (Attribute Standard 1312: External Assessment) for an external Quality Assurance Review every five years.

It's important to remember that an external review is not an audit of the auditors, but a review of the processes and practices within the internal audit function. As such, it is an ideal opportunity to benefit from a formalised and credible peer review, carried out by the standard setter.

Key to this is the experience and expertise of our review team. Each review we carry out is a collaborative effort using the vast experience of our review team

Throughout the process, our aim will be to provide support but also challenge, to highlight the areas where your team is performing well and to offer you pragmatic and realistic recommendations for areas for improvement and enhancement.

Each review we carry out is a collaborative effort using the varied experience of our review team which, in this instance, will include:

- Lead reviewer, **John Chesshire**, who has over 22 years' experience of delivering internal audit services across public, private and third sector organisations. John has completed reviews for other authorities with multiple customers such as SIAP, Gloucestershire County Council, Lancashire County Council and Castlepoint and Southend Councils so has an excellent understanding of the challenges and opportunities that this approach presents.
- The Chartered IIA's Chief Professional Practice Advisor, **Liz Sandwith**. As the guardian of the IIA's guidance and with her knowledge of the International Standards she will not only act as a sounding board for the lead reviewer but will also quality assure the EQA process.

Our independence is critical as our abiding aim is to promote the profession of internal audit and we have no wider interests while carrying out the review. We have completed successful reviews across the public, private and financial services sectors and we have a number of Heads of Internal Audit who are happy to provide references on our behalf should you require them.

"The independence brought by the institute was the single most valuable aspect of the review. Demonstrably independent assurance for the organisation regarding my service's conformance with extensive professional standards is extremely valuable.

The validation of my self-assessment was thorough but very pragmatic and the actions arising from it will undoubtedly improve the service.

The review team also very helpfully provided an alternative example of one aspect of our methodology that we will adopt as an entirely appropriate improvement."

Ruth Lowry
Head of Internal Audit
Lancashire County Council

'Very many thanks for this final report, and to all in the team involved. This has been a really fruitful exercise, acknowledging our progress and giving us clear pointers for the future. I am grateful for the rigour and balance with which this has been undertaken.'

Elizabeth Honer
Chief Executive Officer
Government Internal Audit Agency

Our review team will offer a view on the position of the internal audit service compared to similar services and general best practice seen elsewhere. We will also offer examples of good practices that might benefit the function and the partner organisations.

Best practice will include areas such as:

- Clarity around internal audit's role and responsibilities, both at the executive level and across the partner organisations and clients.
- Internal audit reporting – both in terms of assignments and also to the Audit Committees.
- The relationship between internal audit and risk management.
- Co-ordination of assurance between internal audit and Second Line functions.

The reviewer will consider the current maturity of your internal audit service as this will allow us to provide the realistic and effective feedback that our clients appreciate.

Whilst the standards underpin our approach, we will seek to offer added value during the review in the form of ideas and suggestions to improve how your governance processes work in the future.

3

The Review Team

All our reviewers are experienced heads of internal audit, have passed the Chartered IIA's stringent assessment process and are members of the Chartered IIA, thereby ensuring they abide by our Code of Professional Conduct.

John Chesshire CFIIA

John is a Chartered Fellow of the Chartered Institute of Internal Auditors. He has recently been a member of the Institute's Professional Development Committee and is chairman for the southwest region. He is also a member of ISACA and the IRM. John has over 22 years' experience in internal audit, risk management and governance roles and is the Independent Chair of a local authority Audit Committee.

John has undertaken internal audit roles in a number of organisations and has just finished working as Head of Assurance, where he covered internal audit and risk management, in the public sector. He also leads external quality assessments of internal audit functions in public, private and third sector organisations, reviewing both the effectiveness of internal audit and its adherence to the international standards for the professional practice of internal auditing.

John has a valuable perspective on the quality of internal audit and assurance because of his extensive experience as a freelance internal audit consultant, delivering a variety of training and internal audit engagements for a range of clients. As well as his demanding day job, he continues to undertake a number of roles for the Chartered IIA as a trainer, facilitator, tutor, author and examiner. This breadth of knowledge gives him a unique range of practical and theoretical insight into good practice internal auditing.

Liz Sandwith CFIIA

Liz has over 33 years' experience in internal audit and risk management.

Liz's most recent role was at Bupa where she held a number of roles in her 5 years there from Head of Assurance, Risk and Compliance to Head of Internal Audit - Operations. Liz is responsible for advising and representing the Institute on all matters relating to the professional practice of internal audit; on ensuring quality standards; and on technical issues. She is also technical advisor to the Institute's External Quality Assessment (EQA) service.

Liz's background is firmly embedded in internal audit and risk management. She has worked for a number of private and public sector organisations, helping to develop risk management and control awareness and has delivered training to

internal auditors in the UK and internationally. Liz is a non-executive director and chair of an Audit Committee for a Leeds based Housing Association and is also an independent board member and a member of the Remuneration Committee.

Prior to joining Bupa, she spent 13 years as Head of Internal Audit at Channel 5. She has also worked with the Information Commissioner's Office and the Electoral Commission, as well as advising a number of local authorities on internal audit and risk management issues. Liz served as President of the Institute of Internal Auditors between 2000 and 2001.

4

Scope and Approach

Our structured approach will assess how well internal audit is performing. We will review the internal audit methodology, compare it to the Chartered IIA's recognised good practice and make practical recommendations.

Throughout the review our lead reviewer will carry out one to one interviews with Audit Committee members and senior executives to invite their views on the performance and impact of internal audit. We recognise that these meetings may have to take place remotely, although if the current situation has improved, we would prefer for these interviews to be face-to-face.

We appreciate that many organisations want to know the extent to which their internal audit function conforms to the International Standards for the professional practice of internal audit. We will carry out such an assessment and include an opinion in our executive report.

Beyond conformance to the standards a review from the Chartered IIA will also focus on:

Identifying what internal audit is doing well

- By detailing leading practices that are currently being adopted and highlighting where internal audit is providing added value to the partner organisations.

Supporting continuous improvement

- By identifying areas for improvement, based on the reviewer's extensive experience and the IIA's database, offering suggestions on how excellence can be achieved and advising on ideas for implementing solutions.

Emphasising and enhancing the standing of internal audit

- By highlighting how internal audit is perceived by the boards, senior management and other stakeholders and by raising its profile throughout the process.

Recognising and developing the maturity of internal audit

- By benchmarking the internal audit service with IIA recognised best practice and sharing effective working practices, bearing in mind stakeholders' expectations.

We have designed a detailed assessment tool highlighting the requirements of the Standards and ways to achieve conformance. We will use the tool to work with

you to systematically review the way you deliver internal audit according to recognised professional practice and identify potential scope for development.

This will involve examination and assessment of:

- **The internal audit charter:** the scope of internal audit activity, policies, reporting lines, independence and objectivity.
- **Related governance structures, policies and relationships in action:** the terms of reference for the Audit Committees, the IIA 3 Lines model, key interactions with the senior executive team and other stakeholders.
- **The internal audit strategy and annual plan:** how risk-based plans are designed, resourced and updated to satisfy the organisations' expectations and risk appetite.
- **The way assurance is co-ordinated for the Audit Committees** to avoid duplication and gaps and to optimise the use of assurance resources within the IIA 3 Lines model.
- **Quality assurance arrangements:** processes and performance measurement.
- **Processes:** including the use of internal audit technology.
- **Engagement files and reports:** a cross section of completed reviews from your audit plan.
- **Reporting** and follow-up arrangements.

Within the review process are five interrelated stages of evaluation to ensure full coverage of the Standards, a comprehensive review of internal audit practice and extensive feedback from stakeholders and staff.

Stage 1

Evaluating the effectiveness of the internal audit service using our knowledge of professional practice, including a review of the following documents:

- Audit Committees' terms of reference.
- Audit Committees' board papers and minutes.
- Internal audit charter and strategy.
- Internal audit procedures manual.
- Internal audit planning with links to business strategy, operating model and key risks.
- Resource plans and annual budgets.
- Job descriptions, CPE and training records.
- Assurance mapping and arrangements for co-ordination of assurance.
- Quality assessment and improvement programme - reports and KPIs.
- Annual reporting and opinion.

Stage 2

Evaluating the delivery of your internal audit service and the approach to audit assignments, based upon the process as set out within your internal audit manual with emphasis upon:

- Assignment scoping, objective setting and resourcing.
- Assignment supervision and management – quality control.
- Report writing and review.
- Arrangements in relation to follow-up of internal audit recommendations.

Stage 3

Reviewing a cross section of audit assignments from the audit plan to give an in-depth view of key subject matter and the performance of internal audit staff.

Stage 4

Meetings to discuss internal audit's performance with key stakeholders and staff during stages 1 to 3 as agreed, including:

- The Audit Committee Chairs of 3-4 of the main partners.
- The Chief Executives of 3=4 of the main partners.
- The S151 Officers of 3-4 of the main partners.
- A representative from the external auditors (Grant Thornton).
- The ORBIS Chief Internal Auditor.

Interviews with members of the Audit Committee and key stakeholders of internal audit usually take around 30-45 minutes and can be conducted via Zoom/Skype/Microsoft Teams etc.

In order to further engage stakeholders and staff and incorporate their feedback into the review process, we will also carry out an online survey of staff and of managers who have regular contact with internal audit.

Stage 5

Analysis and Report – aggregating the evaluations and discussing conclusions:

- Close out meeting with the ORBIS Chief Internal Auditor to discuss initial findings and refine proposals.
- Gather and evaluate comments to the draft report.
- Benchmark against the Chartered IIA's EQA assessment tool and the new IA Code of Practice.
- Agree draft report with the ORBIS Chief Internal Auditor.
- Finalise report, with reference to the Chartered IIA's EQA checklist.
- Produce and circulate the final report as required.

5

Reporting

Our structured approach will assess how well internal audit is performing. We will review your internal audit methodology, compare it to Chartered IIA recognised good practice and make practical recommendations.

On completion we will provide a detailed executive report with recommendations within your defined timescale. This will include our assessment of your conformance to the Standards with a summary of results similar in style to the table below. We will also present our view on the maturity of internal audit using our Internal Audit Effectiveness Report and the maturity matrix on page 12 and will include examples and suggestions on how excellence can be achieved.

8

Summary of Conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	7				7
Managing the Internal Audit Activity	2000 - 2130	11	1			12
Performance and Delivery	2200 - 2600	21				21
Total		63	1			64

1 Executive Summary

1.1 Background and Scope
In Summer 2021, the Chartered Institute of Internal Auditors (the Chartered IIA) undertook an external quality assessment of the

1.2
We have

Standards Conformance
The Chartered IIA includes the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards on Auditing (ISAs) and 18 principles of recommended practice. We assess against the principles, we find NCI's internal audit services conform to 57 of the principles, with partial conformance on 5 principles (2 principles are not applicable).

We have concluded that the NCI Generally Conforms at an overall level with the IPPF.

Summary of Conformance	Standards	Generally conforms	Partially conforms	Does not conform	Total
Definition of IA and Code of Ethics	Rules of conduct	12	-	-	12
Purpose	1000 - 1130	8	1	-	9
Proficiency and Due Professional Care (People)	1200 - 1230	4	-	-	4
Quality Assurance and Improvement Programme	1300 - 1322	7	2	-	9
Managing the Internal Audit Activity	2000 - 2130	10	2	-	12
Performance and Delivery	2200 - 2600	21	-	-	21
Total		63	5	-	68

A4 Internal audit skills & capabilities

Internal audit resources, skills and capabilities

Report from the Chair of the Audit Committee
The Chair of the Group Audit Committee asked the EQA Reviewers to consider during their review on the various levels of Group Internal Audit (GIA) the skills and capabilities required.

Chair's view
While it is not within our scope to provide detailed views on how much internal audit resources is sufficient, we provide the following comments to assist the Director of Risk and Internal Audit and the Chair of the Audit Committee in their considerations for the future range of GIA.

Skills and capabilities
The GIA team structure is focused around the Firm's regions and the activities taking place within regions and countries. Typically internal audit functions of global businesses will have a team structure that covers the following responsibilities:
• Regions and operations – typically with responsibility split by geographies and systems/vertical business structure

Internal Audit Maturity Matrix

Assessment	IIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally, conforms in all areas.	Excellent alignment to the organisation's objectives. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as the third line. The work of assurance providers is co-ordinated with IA reviewing reliability thereof.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
Good	The IIA Standards are fully integrated into the methodology – mainly generally conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Co-ordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, including lessons learnt, scorecard measures and stakeholder feedback with results shared with the AC.
Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from partially to generally conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The IIA 3 Lines model is regarded as important. Planning of co-ordination is active, and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued but are considered a little wordy.	Clear evidence of timely QA in assignments with learning points and coaching. Stakeholder feedback is evident. Wider QA&IP may need formalising
Needs improvement	Gaps in the methodology with a combination of non-conformances and partial conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to co-ordinate assurance is recognised but progress is slow. Some informal co-ordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred.	QC not consistently embedded across the function. QA is limited / late or does not address root causes.
Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

6

Working with you

We adopt a collaborative approach to ensure that you, as our client, find the review process a rewarding and positive experience. To this end, we will adopt a 'no surprises' approach to the review and will ensure that your key contacts are involved and updated throughout.

At the start of the process, once the contract has been awarded, John Chesshire will arrange a planning call with the ORBIS Chief Internal Auditor to put together an outline for the review. This will enable us to ensure that the review runs as efficiently as possible.

The ORBIS Chief Internal Auditor will be kept updated throughout and the Chartered IIA's Professional Service Manager will be available as the point of contact throughout for queries and any issues that arise.

To ensure that the review runs as smoothly as possible, both parties will need to liaise to ensure the following:

- Interviews with key stakeholders and staff are arranged in advance.
- Review dates should be agreed in advance.
- If a survey is to be issued, names and email addresses should be supplied a minimum of 3 weeks ahead of the review commencing.
- You will ensure that all reasonable information requested by us ahead of the review is made available.
- The Chartered IIA will ensure that all documentation provided to us during the review will be kept secure and will not be divulged to anyone not involved with the review.
- A draft report will be provided within 2 weeks of the completion of the review.

7

Why choose the IIA?

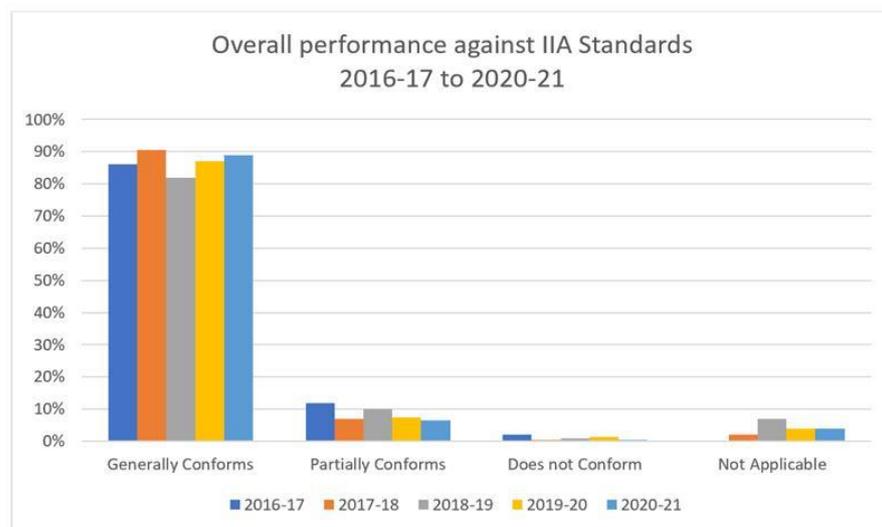
Our approach is centred on the practices of the profession with an emphasis on corporate governance, risk management and control.

- We are independent of any other organisation and because we set the standards, we truly understand them.
- We have no interest beyond promoting and developing the profession, so we never try to sell additional services that you do not require or offer alternative suggestions for the delivery of internal audits.
- We offer a flexible approach and ensure that we place highly qualified reviewers who match your requirements.
- We help to promote what you do and raise the profile of internal audit within your organisation.
- There will be no surprises as we'll discuss ideas as they arise. However, we will challenge you and offer ideas and suggestions for continuous improvement.

Since the inception of the Chartered IIA's external quality assessment service six years ago, we have undertaken over 230 reviews of public, private and financial services sector organisations and varying sizes of internal audit activities.

The results regarding conformance with the IIA Standards continue to improve which is a positive message.

Overall performance against the IIA Standards over a five-year period from 2016/17 to 2020/21

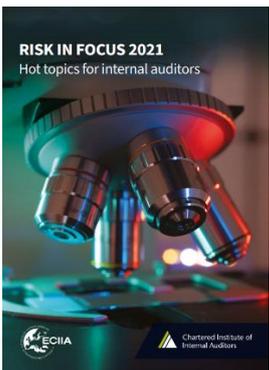
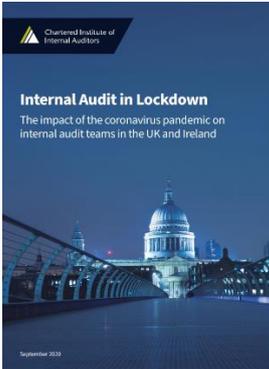


8

Leading the Profession

The Chartered IIA takes a leading role in providing initiatives and resources to support Audit Committees and Internal Audit activities. This has been particularly true during the pandemic when leadership was most needed. Examples of this are below:

- Monthly Heads of Internal Audit and Local Authority virtual fora.
- Regular thought leadership pieces such as those showcased on this page.
- An annual Risk in Focus report that collates responses from over 700 CAEs, Audit Committee Chair across Europe. There is also a board briefing share with Audit Committee Chairs.
- A Data Analytics Group consisting of over 100 internal auditors across in excess of 80 organisations sharing, supporting and advising on the use of data analytics as an added value tool for internal auditors and to strengthen the assurance provided to the audit committee.
- Webinars on key topics such as internal audit planning, assurance mapping, reporting and UK SOX.
- A bi-monthly Leaders Forum discussion group. An example of this is the 1st April presentation from Sir Jon Thompson which was attended by 25 CAEs on the new BEIS White Paper. Other hot topics are covered throughout the year.
- Audit Leaders is a dedicated community, tailored specially for those at leadership level. Those whose job it is to create and protect organisations assets, build brands, and create high-performing teams. Providing a range of content from articles, podcasts and monthly events which aim to Inspire, Inform and Support. There is also a LinkedIn community to enable members to share thoughts and ask questions within a safe environment.



9

Schedule, costs and deliverables

Prior to the review commencing, our lead reviewer will evaluate documentation to minimise disruption to your employees.

We estimate that the review team will require 12 days to complete the work including the review of audit engagements and carrying out interviews as outlined in section 4.

The fee quoted below includes preparation that would be carried out before the review commences, the review itself, production of the report and quality assurance.

As internal auditors we recognise the importance and value of effective communication. We will discuss issues and ideas with the senior managers of the internal audit service as the review proceeds and conclude our review with a close out meeting highlighting our key findings and ideas for development.

The draft report will contain our assessment of conformance with the IIA *International Standards*. It will also include suggestions for improvement and development and we will invite you to provide responses for inclusion within the final report.

10

Terms and conditions

The lead reviewer will conduct the review with regard to applicable professional ethics, including the requirements of confidentiality, and that no confidential information will be divulged by the lead reviewer to anyone not associated with the review.

The agreement to conduct the review, as detailed in this proposal, will come into existence on written acceptance by you or your authorised representative.

Payment terms: 30 days from date of invoice.

This proposal is valid for 90 days from **3rd May 2022**.

Signed:



Kevin Grimwood
Professional Services Manager

On behalf of:

Chartered Institute of Internal Auditors
13 Abbeville Mews, 88 Clapham Park Road
London SW4 7BX

Telephone: 020 7819 1945
Email: kevin.grimwood@iia.org.uk
Website: www.iia.org.uk

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About the Chartered IIA

First established in 1948, the Chartered Institute of Internal Auditors obtained its Royal Charter in 2010. We are the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland. We work with both individuals and teams to continually develop and enhance their value to their organisations. We have 10,000 members in all sectors of the economy including private companies, government departments, utilities, voluntary sector organisations, local authorities and public service organisations.

Over 2,000 members of the Institute are Chartered Internal Auditors and have earned the designation CMIIA. Over 1000 of our members hold the position of Head of Internal Audit/Chief Audit Executive and the majority of FTSE 100 companies are represented amongst the Institute's membership.

Members of the Chartered Institute of Internal Auditors are part of a global network of over 180,000 members in 170 countries. All members across the globe work to the same International Standards and Code of Ethics.

12

Client list

(representative not comprehensive)

Public Sector

The Atomic Weapons Establishment
 The BBC
 Environment Agency
 Gloucestershire County Council
 Government Internal Audit Agency
 The Home Office
 HSE
 Lancashire County Council
 The Met Office
 The Ministry of Defence
 National Treasury Management Agency
 Northern Ireland Water
 The Office of National Statistics
 The Scottish Government
 Translink
 Transport Infrastructure Ireland

NFP/Charities/Education

Aster Group
 Barnardos
 Charities Aid Foundation
 Circle Housing Group
 Dublin Institute of Technology
 East Thames Group
 Gentoo Housing
 L & Q Group
 Marie Curie
 Open University
 Orbit Housing Group
 Progress Housing Group
 Save The Children International

Financial Services

The AA
 Arbuthnot Latham
 Atrium Underwriters
 BGC Partners
 Enstar Insurance
 FBD Insurance
 International Bank of Qatar
 Marex Spectron
 Mitsui Bussan Commodities
 Newcastle Building Society
 Oaknorth Bank
 Paragon Banking Group
 Permanent TSB
 Simplyhealth
 The Exeter
 United Trust Bank

Private Sector – Non-FS

BDO
 BT Group
 The BSI
 Bunzl
 Cargotec
 Co op
 KPMG
 National Grid
 PwC
 RSM UK
 TalkTalk
 Taylor Wimpey
 United Utilities
 Walgreens Boots

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**Audit & Governance Committee
13 June 2022**

2021/22 TREASURY MANAGEMENT OUTTURN REPORT

Purpose of the report:

This report summarises the Council's treasury management activities during 2021/22, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

Recommendations:

It is recommended that the committee note the content of the Treasury Management Outturn Report for 2021/22 and compliance with all Prudential Indicators.

Background:

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve Treasury Management half-year and annual outturn reports. This is the annual outturn report for 2021/22.
2. The Authority's Treasury Management Strategy Statement and Prudential Indicators for 2021/22 were approved at Audit & Governance Committee on 29 January 2021. 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 Authority's Treasury management Strategy.
3. An economic commentary provided by our expert Treasury Management Advisors, Arlingclose is included in Annex 1 (produced in March 2022)

Treasury Management Annual Report 2021/22

Overview

4. On 31 March 2022, the Authority had net borrowing of £566m arising from its revenue and capital income and expenditure, a decrease of £104m since 31 March 2021. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which represents the amount of capital expenditure that is not funded from capital receipts, government grants, third party contributions or revenue.

5. Net borrowing has decreased due to the combination of an increase in working capital and useable reserves and a small reduction in the CFR. The CFR reduction was due to the minimum revenue provision being higher than new capital expenditure funded by borrowing. This is set out in table 1, below:

Table 1: Balance Sheet Summary

	31/03/21 Balance £m	2021/22 Movement £m	31/03/22 Balance £m
General Fund CFR	1,341	(6)	1,335
Less PFI Liabilities	(95)	4	(91)
Gross Borrowing Requirement	1,246	(2)	1,244
Less usable reserves and working capital	(586)	(92)	(678)
Net Borrowing Requirement	660	(94)	566

Note: Columns do not sum due to rounding

6. The Treasury Management Strategy for 2021/22, approved by Audit & Governance Committee in January 2021, continued the policy of internal borrowing wherever possible. This maintains borrowing below its underlying level by using available reserves and working capital to reduce the need for external borrowing. This minimises interest rate risks and keeps interest costs low.
7. The Council also manages cash on behalf of Surrey Police and Crime Commissioner, the balance of which was £25.7m as at 31 March 2022. The Council accounts for this as short-term borrowing. The treasury management position as at 31 March 2022 and the year-on-year change is show in table 2 below.

Table 2: Treasury Management Summary

	31/03/21 Balance £m	2021/22 Movement £m	31/03/22 Balance £m
Long-term borrowing	434*	47	481*
Short-term borrowing	273	(73)	200
Surrey Police	12	14	26
Total borrowing	719	(12)	707
Money Market Funds	(59)	(82)	(141)
Net borrowing	660	(94)	566

*Total long term borrowing is £496m. This includes £1.7m of Local Enterprise Partnership (LEP) loans, £13m of Salix which are managed outside of the Treasury Management.

Borrowing Activity

8. At 31 March 2022, the Authority held £707m of borrowing, a decrease of £12m on the previous year. The sources of borrowing, interest rates and the year-on-year change is show in table 3 below.

Table 3: Borrowing Position

	31/03/21 Balance £m	2021/22 Net Movement £m	31/03/22 Balance £m	31/03/22 Rate %
Public Works Loan Board (PWLB)	424	47	471	3.67
Banks (fixed-term)	10	0	10	5.00
Local authorities (short-term)	273	(73)	200	0.14
Surrey Police & Crime Commissioner	12	14	26	0.75
Total borrowing	719	(12)	707	

9. The Authority's primary consideration when borrowing money is to balance low interest charges and cost certainty over the period, while allowing enough flexibility to renegotiate a portion of the debt portfolio based upon changing strategic needs. The Authority has explored the potential for early repayment of the £10m bank loan at 5% but the penalties of early repayment are prohibitively high. The average interest rate of PWLB loans has been falling over time and as existing loans mature, they are replaced with new loans at lower rates.
10. In keeping with these objectives, £50m of new long-term borrowing was undertaken in 2021/22 to maintain an appropriate balance of long and short term debt, undertaking long-term debt to provide cost certainty at a time when PWLB rates were attractive. Details of the new PWLB loans are detailed below.

Table 4: New Long-term Borrowing

Long Dated Loans borrowed	Amount £m	Rate %	Period (years)
PWLB EIP Loan (493192)	50	1.98%	20
Total new Borrowing	50	1.98%	20

Investment Activity

11. The Authority holds invested funds, representing income received in advance of expenditure, plus reserves and balances held which have not been utilised for internal borrowing.
12. Both the CIPFA Code and government 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.
13. In furtherance of these objectives and given the continuing risk and low returns from short-term unsecured bank investments, the Authority has kept its cash balances and investments low throughout 2021/22 and invested funds principally in Money Market Funds to ensure liquidity. During the year, the Authority's investment balance ranged between £3.9m and £170.9m. The Council's average daily level of cash investments was £59.6m during 2021/22, compared to an average of £57.1m during 2020/21. The Council invests temporary cash surplus exclusively through the use of money market funds (MMF).
14. The year-end investment position and the year-on-year change is show in table 5 below:

Table 5: Investment Position (Treasury Investments)

	31/03/21 Balance £m	2021/22 Net Movement £m	31/03/22 Balance £m	31/03/22 Rate* %
Money Market Funds	59	82	141	0.10
Total Investments	59	82	141	0.10

*weighted average rate earned in the year

15. The weighted average return on all investments the Council received in the year to 31 March 2022 was 0.10%. Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.10%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31 March, the 1-day return on the Authority's MMFs ranged between 0.47% and 0.55%.

Financial Implications

16. The outturn for interest paid, interest received and the minimum revenue provision are outlined in table 6 below.

Table 6: Revenue Implications of Treasury Management Activity

	Budget £m	Outturn £m	Variance £m
Interest Paid	17.9	16.8	(1.1)
Interest Received	(0.03)	(0.02)	(0.01)
MRP	18.8	20.7	0.9

17. The amount of the Authority's revenue budget required to be set aside for the future repayment of external borrowing is known as the Minimum Revenue Provision (MRP). This amount is calculated by reference to the Council's balance sheet as at the end of the previous financial year. The overspend relates to a change in MRP policy in respect of funding provided to subsidiaries. This is due to providing for recent fluctuations in fair value of investment properties held by the subsidiary, by reviewing the repayment profile of the loan to determine whether principal repayment is required over the asset's life to ensure prudent provision is made to repay the Capital Financing Requirement over the asset's life. This was the first year in which the change to the MRP policy has been applied.

The underspend in interest payable reflects the persistent low interest rates on short term debt and a reduced average debt balance.

Compliance Report

18. All treasury management activities undertaken during 2021/22 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits, the authorised limit and operational boundary for external debt, is demonstrated in tables 7 & 8 below.

Table 7: Debt Limits

	2021/22 Maximum actual position £m	31/03/22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied
Total			1,435	1,935	
Less: Other long term liabilities (PFI)			(137)	(137)	
Underlying Borrowing	740	707	1,298	1,798	✓

19. 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 at any point in 2021/22.

Table 8: Investment Limits

	2021/22 Maximum actual position £m	31/03/22 Actual £m	2021/22 Limit £m	Complied
UK Central Government	0	0	Unlimited	✓
Money Market Funds	171	141	Unlimited	✓
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

20. The Authority measures and manages its exposure to treasury management risks using the following indicators.

Security: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard is therefore given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis. No investments will be made with an organisation if there are substantive doubts about its credit quality. In addition, if insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills or with other Local Authorities.

Liquidity: The Council manages its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments. The Council maintains a bank overdraft of £100,000, utilises overnight access Money Market Funds and accesses short term borrowing to meet cash flow requirements. The Local Authority market provides readily available funds.

Interest Rate Exposures:

The Council had £200m of short-term borrowing at 31 March 2022, with an additional £153m expected to be required to finance the 2022/23 capital programme, which would result in total of £353m by March 2023. Short term borrowing is subject to variable interest rates linked to the Bank of England (BoE) base rate, meaning it is subject to interest rate risk if the base rate increases. The Council's Treasury Management advisor Arlingclose has forecast an increase in interest rates to 1.25% in the short term, this is an additional increase of 0.5% compared to when the budget was set for interest and would result in a potential increase of £1.1m in interest costs by March 2023, assuming an even profile of borrowing to fund capital expenditure in 2022/23 and factoring in the Q1 BoE rate decision has already passed with a 0.25% increase in rates to 0.1% in May 2022. The Council has set aside £2.1m in reserves to mitigate variable interest rate exposure which more than covers this interest exposure scenario. In addition, the Council continually monitors the capital programme throughout the year and will borrow to address requirements driven by the cash flow forecast, including updates on the level of capital expenditure being incurred against the programme budget.

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

Table 9: Maturity Structure of Borrowing

	31/03/22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	37%	60%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	0%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	67%	100%	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 interest rate changes.

Table 10: Sums invested for more than one year

	2021/22 Maximum actual position £m	31/03/22 Actual £m	2021/22 Limit £m	Complied
Sums invested for longer than one year	0	0	40	✓

Other Non-Treasury Holdings and Activity

21. Although not classed as treasury management activities, the CIPFA Code requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.
22. The Authority holds the following non-treasury investments:
 - £122m of directly owned investment property
 - £234m of loans to Halsey Garton Property Ltd
 - £93m of equity investments in Halsey Garton Property Ltd

- £7.2m of loans to Halsey Garton Residential Ltd
- £4m of equity investments in Halsey Garton Residential Ltd
- £2m of loans to other subsidiaries

23. Such loans and investments have been approved in accordance with the Council's agreed processes. A register of such investments is maintained and performance information is reported to the Strategic Investment Board or the Shareholder and Investment Panel, in accordance with their Terms of Reference.
24. These non-treasury investments generated £6.2 of investment income for the Authority after taking account of direct costs and interest payable.

Implications:

Financial

25. The financial implications of this report are discussed in paragraph 53-55 and were included in the outturn report to Cabinet on 31 May 2022.

Equalities and Diversity Implications

26. There are no direct equities implications of this report

Risk Management Implications

27. The risk management arrangements in relation to treasury management are discussed in paragraph 22.

Next steps:

- i. The treasury team will continue to monitor the UK and overseas banking sector and will continue to update this Committee as appropriate
- ii. In line with the requirements the CIPFA Code, this Committee will receive a half yearly report on the Council's treasury management activities in December 2022 and a full year report for 2022/23 in July 2023.

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Contact details: allen.fountoukos@surreycc.gov.uk

Sources/background papers:

Capital Budget, Prudential Indicators & Treasury Management Strategy 2021/22
 CIPFA Code of Practice for Treasury Management
 CIPFA Prudential Code

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Annex 1: Economic Background provided from Arlingclose

External Context

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

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Audit & Governance Committee
13 June 2022

Annual Complaints Performance Report

Purpose of the report:

To give the Audit & Governance Committee an overview of the Council's complaint handling performance in 2021/22 and to demonstrate how feedback from customers has been used to improve services.

Recommendations:

It is recommended that Audit & Governance Committee note the report.

Introduction:

1. The Council has three complaints procedures: one for Adult Social Care, one for Education and Children's Services and one for all other Council services. The procedures for dealing with complaints about children's and adult social work services are set out in law. The corporate complaints procedure (covering all other Council services) is based on best practice. This report gives an overview of complaint management for all three procedures.
2. Adult Social Care and Education and Children's Services produce separate annual reports where more detailed information and analysis about the types of complaints received, outcomes and improvement actions can be found. Regular performance reports are shared with service managers and leadership teams.
3. The Local Government and Social Care Ombudsman (LGSCO) is the final stage for complaints about councils and some other organisations providing local public services. The Ombudsman issues an Annual Review letter in July to each local authority. This will be the subject of a separate report to the Committee later in the year.
4. This report also includes complaints made about Surrey County Council's Pensions Service. Pension complaints are dealt with through a separate complaints procedure and have a separate Ombudsman, The Pensions Ombudsman. The Pensions Service provides separate reports

on complaints received to the respective Pensions Funds.

Background to complaints handling in Surrey County Council:

5. Effective complaint handling is critical to delivering good customer service and good outcomes for our residents. As well as putting things right when they go wrong, every complaint presents a potential opportunity to learn and improve and rebuild trust.
6. The volume of complaints does not in itself indicate the quality of the Council's complaint handling performance. Low complaint volumes can be a sign that an organisation is not open to receiving feedback.
7. Escalation rates and uphold rates are a better measure of performance because these indicate where complaints were not resolved at service level and where fault has been found.
8. Where fault is found, actions are put in place to resolve the complaint for the customer and to make sure we improve our service. Specific examples are highlighted in Annex 1.
9. Even if a complaint is not upheld, there is always the opportunity to learn about why the customer has made a complaint and how their experience could have been improved.
10. Where there is an alternative route for resolution e.g. appeals process, the matter will not be considered through the complaints procedure. For example, data breaches, Special Educational Needs (SEN) tribunals and school transport appeals panel.
11. It is important to capture a balanced view of services and to recognise and learn from good service, which is why compliments received by customers are also recorded and referenced in this report. Examples are given in Annex 2.

Early Resolution and use of online complaints form

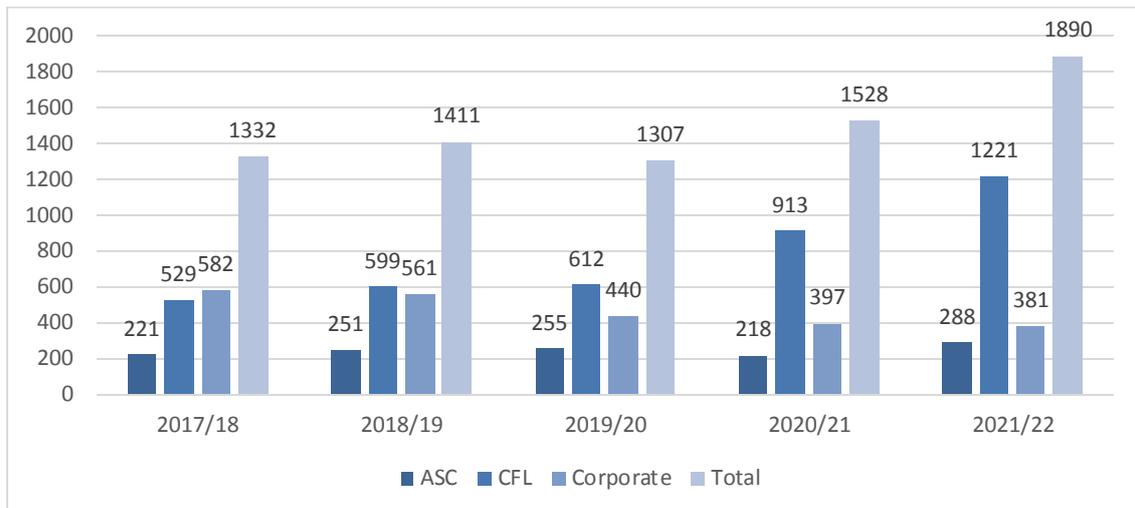
12. Our online complaint form makes it easy for customers to contact us with any concerns when it suits them. A number of service requests are received through this route, as well as residents commenting on policy decisions. While the online form is popular, it is recognised not everyone has access to, or can use, digital services. This is why there are other ways to make complaints, such as by telephone.
13. The Council's early resolution approach means that all complaints are reviewed when they are received to make sure any enquiries are properly routed to the person or service best placed to help or respond. It is also determined at an early stage whether what the customer has asked for can be achieved without the need to go through the complaints procedure.

14. The Customer Relations Teams proactively work with services to prevent issues escalating where the required advice, information or preferred outcome can be provided quickly outside the complaints procedure. This is to provide a proportionate and resolution focused service; it is not designed to prevent complaints being made.
15. This approach helps distinguish complaints from service requests quickly and makes sure they are properly routed with minimum delay. 909 online complaint forms were submitted in 2021/22, compared to 912 in the previous year.
16. The majority of customers used the online form for highways issues (370), with the most frequent topic being roadworks, vegetation, and potholes. The next most frequent contact related to Transport (128), then Waste (98). 150 enquiries relating to services provided by district and borough councils were also received. Where appropriate, customers were signposted to the responsible authority.
17. Some of the regular issues reported through the online complaints form, included:
 - District & Borough Council matters - recycling and bin collections, parking enforcement and environmental issues.
 - Waste charges and questions relating to the community recycling centres.
 - Countryside - overgrown footpaths/vegetation issues.
 - Bus services - changes to routes / bus operators, timetables etc
 - Trading standards - comments about local businesses not trading correctly.
 - Highway enquiries - trees and vegetation enquires, roadworks/road closures and potholes.
 - Insurance claims - claims for damage to vehicles.
 - Property - reports about lighting / alarms / generators.

Complaint handling performance in 2021/22:

18. During the year 2021/22, the three complaint teams within Surrey County Council received 1,890 complaints: a 24% increase across the board from the previous year (1,528).
19. Breaking this down into the three main areas, Adult Social Care saw a 32.11% increase, the Children's and Education Customer Relations Team saw a 40% increase and all other services a 14% decrease.

Figure 1: Total complaints received



20. During 2021-22, the Children’s and Education Customer Relations Team received a total of 1221 complaints. The top area of complaint for 2021/22 related to Children’s Social Care Services (660). During 2021/22 complaints about Children’s Social Care increased by 57% with complaints about Education services increasing by 80% (561 complaints).
21. This is reflective of the current challenges being faced nationally regarding the provision of education for children and young people with additional needs and disabilities. Complaints included delay in finalising Education Health Care Plans, Annual Review Process not completed in time, children missing education and poor standards of communication.
22. For Children’s Services there has been an increase in complaints about the personal data held by the Council and the accuracy of that data. These are translating into Requests for Rectification under GDPR 2018. Families are also sharing concerns about the standards of communication and see themselves continually chasing for progress updates, for both social care and education provision.
23. During 2021/22, 92 complaints were also received from families about the delivery of Home to School Transport. There is an acknowledged national shortage of contractors at the current time and alternative arrangements have been put in place wherever possible. These include reimbursement of costs incurred by parents transporting children themselves. Transport officers ensure that case officers are made aware of any children holding Education Health and Care Plans who cannot attend school or college as a consequence of transport challenges.
24. For Education Services, primarily provision for Children with additional needs and disabilities, concerns are also often pursued through the appeals process. These translate into enquiries from MPs and Councillors as families become increasingly frustrated

by the process and what they see as internal delays with the various panels needed to inform decisions about settings and provision.

25. For Adult Social Care, the increase in volume reflects the increasing complexity of need, the on-going workforce recruitment and retention challenges within the adult social care sector, the pandemic and subsequent recovery.
26. The most frequent subject of complaint for each of the complaints procedures are shown in Figure 2 below. Service specific delivery issues followed by lack of communication were the most frequent complaint categories.

Figure 2: Complaint categories 2021/22

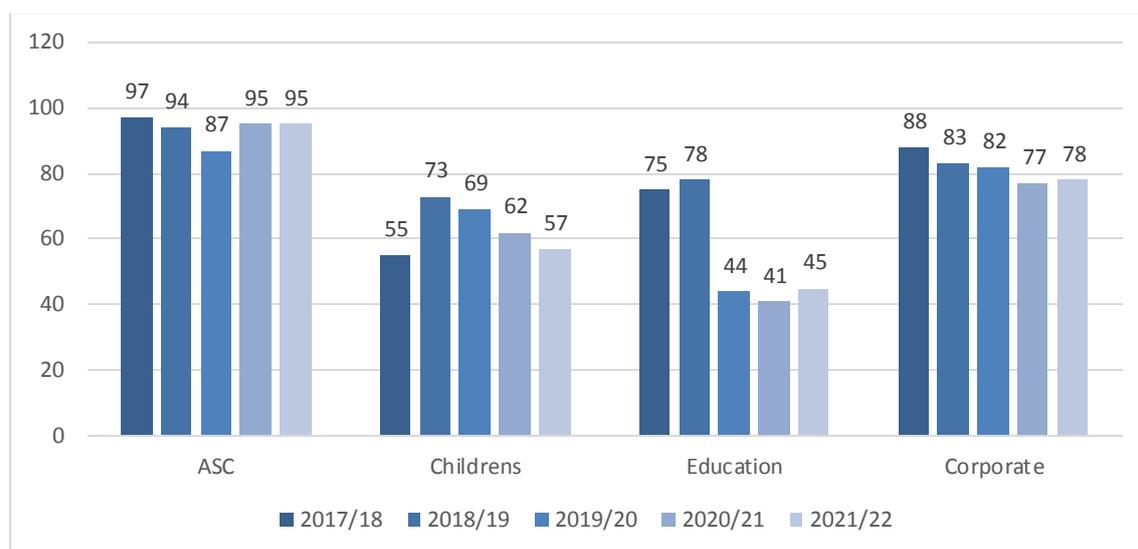
CORPORATE	CHILDREN, SCHOOLS & FAMILIES	ADULT SOCIAL CARE
Roadworks	Disagreement with assessment, content, and outcomes	Staff conduct, Communication, and issues linked to the Assessment Process
Trees/overgrown vegetation	Children out of education and without alternative provision	Financial/funding issues
Potholes on road surface	Delays in responding to Annual Reviews for children with EHCP	Service Provision
Library Services	Delays in EHCP process/disagreement with content	Decision Making
Parking	Children not meeting the criteria for support from Children with Disability Services	Safeguarding

10

Complaint trends & performance:

27. For corporate complaints, the target is for 90% of stage 1 complaints to be responded to within 10 working days. This year, 78% were responded to within timescale, compared to 77% the previous year.
28. For Adult Social Care, the target is for 90% response within 20 working days (extension can be agreed) . The figure for this year was 95% matching the previous year 2020/21.
29. For Children’s, Families and Lifelong Learning, the complexities of complaints continue to impact the ability to respond within the statutory timescales. The Directorate is working towards 80% compliance within 10 working days (extended to 20 working days if necessary). 45% of Education complaints were responded to in timescale, compared to 41% in the previous year. For Children’s Services 57% were within timescale, compared to 62% in 2020/21.

Figure 3: Performance against response target

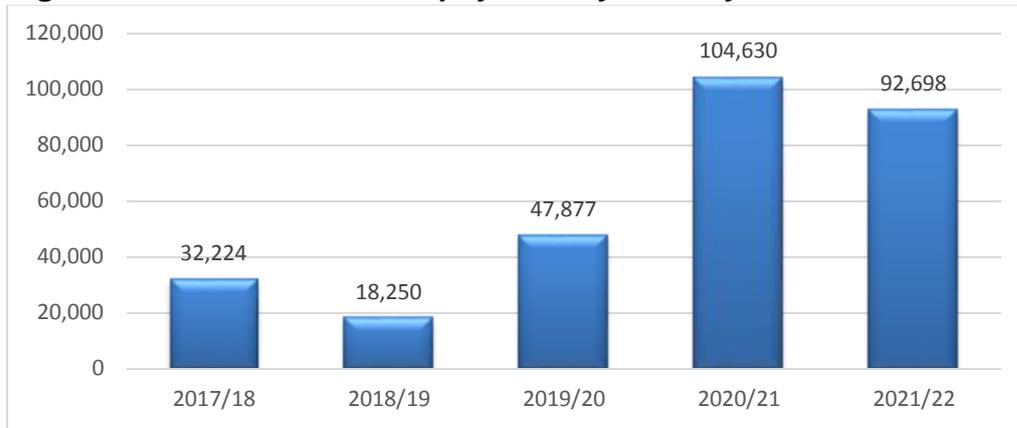


- 10
30. The Council's complaints function continued as normal throughout the Covid-19 pandemic. However, the challenges faced by front-line staff and the focus on delivering essential services for residents did continue to impact response times and available resource. The longer response times for Children's Services and Education were not unexpected because of the increasingly complex nature of concerns shared by families, which was exacerbated during the height of the pandemic.
 31. There were 349 complaints still open at the end of the year (31 March 2022), either because they were still within the response time, or because they had yet to be resolved and responded to. The breakdown was:
 - 35 (Adult Social Care)
 - 152 (Children's Services)
 - 140 (Education)
 - 22 (all other services)

Financial Redress:

32. Where fault is found following a complaints investigation, financial redress can be recommended where appropriate. All financial awards are approved by the relevant Head of Service and, if greater than £1,000, in consultation with the relevant Cabinet Member. The Ombudsman can also recommend financial redress if they find fault following an investigation.
33. Despite the overall increase in complaints received, there was a decrease in the amount of financial redress paid in 2021/22 (£92,698.02) compared to 2020/21 (£104,630.15).

Figure 4: Financial Redress payments year-on-year



34. For Children's & Education, the total paid was £77,412.70 of which £42,217.50 were payments directed by the LGSCO and £35,195.20 were remedy payments agreed by the Council.
35. Of the LGSCO directed payments £37,417.50 related to SEND and £4,800.00 related to Children's Social Care.
36. Of the £35,195.20 local remedy payments:
 - £25,945.20 related to Education Services (this includes one single payment of £11,350.00 for loss of education provision and OT)
 - £1,550.00 related to Home to School Transport
37. £7,700.00 related to Children's Services. This includes a payment of £4,800.00 where the Southwark Judgment was not applied correctly leaving a care leaver at risk.
38. For Adult Social Care, the total paid was £14,085.32, which was a result of recommendations from the Ombudsman. The two largest of these included payments for the following two complaints:
 - A retrospective payment of £4,335.32, to pay for the hours claimed by the family to meet the client's eligible needs.
 - A payment of £5,400 for the loss of support services and the impact this has had on the client.
39. The totals of financial redress payments are shown below (figure 5).

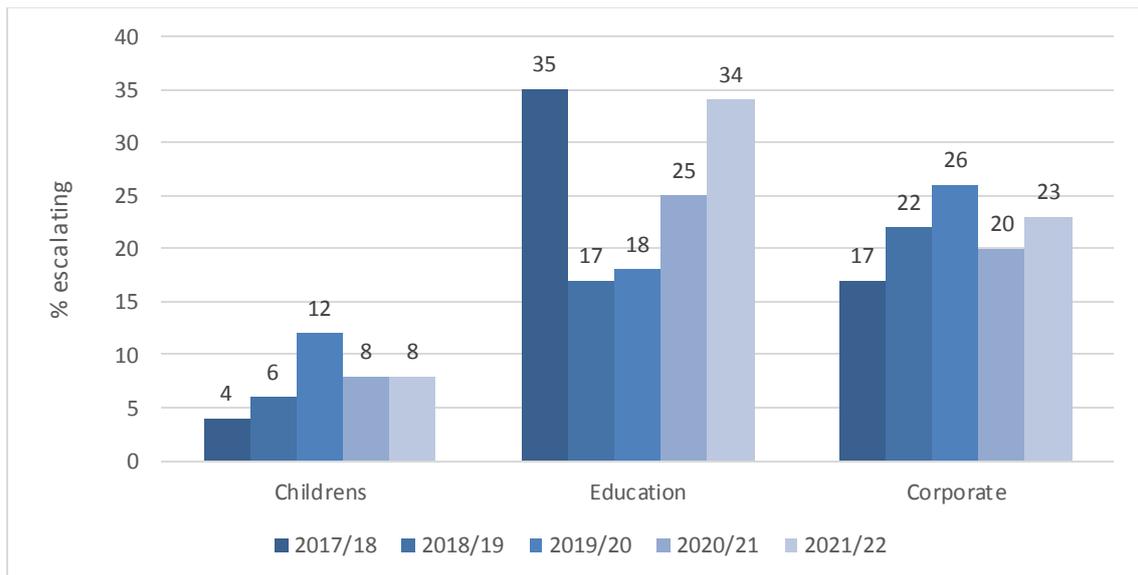
Figure 5: Financial Redress breakdown 2021/22

COMPENSATION 2021/22	
Adult Social Care	£14,085.32
Children, Families & Learning	£77,412.70
Corporate	£1,200.00
Total	£92,698.02

Complaint Escalation:

40. The aim is to resolve complaints at the earliest opportunity; however customers can escalate their complaint, both to the next stage of the Council’s complaints process (where this option applies) and to the LGSCO for external independent investigation. Escalation rates are a good indicator of how successfully complaints are being handled at point of service.
41. 23% of complaints (78 out of 338 Stage 1 complaints) were escalated from Stage 1 to Stage 2 of the Council’s corporate complaints procedure in 2021/22. This is a 3% increase on the previous year (20%). Due to their complexity, 43 complaints were taken on straight at stage 2 to avoid further frustration for customers.
42. During the 2021/22 financial year, 8% of complaints about Children’s Services escalated to the second stage of the complaint process. This has remained the same as the previous year. 34% of complaints about Education Services escalated to the second stage, an increase of 9% when compared to the previous year.

Figure 6: Complaint escalation year-on-year



43. Adult Social Care is required by law to have a one stage complaint procedure. This is why there is no escalation rate for Adult Social Care complaints.

Escalation to the Local Government & Social Care Ombudsman

44. Only a very small number of complaints escalate to the Local Government and Social Care Ombudsman. The vast majority are successfully resolved and responded to by the Council. In 2021/22, the Ombudsman notified the Council of 128 decisions regarding complaints against Surrey County Council. The Ombudsman issues their annual letter in July 2022. This will confirm the enquiries and complaints received about Surrey County Council. A further report analysing this letter will be brought to a future meeting of the Audit and Governance Committee. This report will also include benchmarking data from comparable councils in relation to complaints handling.

Pensions Complaints

45. During this year, Surrey County Council also administered the pensions function for three other local authorities (London Borough of Hammersmith & Fulham, London Borough of Hillingdon, and the City of Westminster), however they transitioned out of the pensions administration arrangements in the period between October 2021 and January 2022. Figure 8 (below) shows the complaints received for the year 2021/22 for Surrey County Council's Pensions Service.
46. During the last financial year there were four recorded cases of complaints referred to the Pensions Ombudsman. There have been no Pensions Ombudsman's decisions during the same period.
47. Overall, the total number of complaints have decreased from the previous year (previous total was 97).

Figure 8: Pensions Complaints 2021/22

Fund	2021/22 Total
Hammersmith & Fulham	2
Hillingdon	6
Westminster	1
Surrey	30
Total	39

Learning from complaints

48. Every complaint presents an opportunity to put things right for the complainant and also for the Council to learn and improve. An individual

complaint may result in a single action to put that particular situation right or to mitigate against that situation re-occurring. Multiple complaints about the same issue could indicate a need to review how a service is delivered. Specific examples are given in Annex 1.

Compliments:

49. It is important to present a balanced view of services and to recognise and learn from good service. Throughout the year Surrey residents and customers have taken the time to compliment the standard of service they have received. In 2021/22, the Council recorded 1098 compliments about its services: 128 for Children and Family Service, 70 for Education; 451 for Adult Social Care and 449 for all other services. The decrease in numbers recorded on our system for 'all other services' is as a result of work ongoing to ensure more consistency in the logging of compliments through a standard definition.
50. The Customer Relations Teams are encouraging the logging of individual compliments received direct by services to enable identification of areas of good practice. Compliments are now routinely captured on our casework management system. Some extracts from compliments received are given in Annex 2.

Conclusions:

51. What are we doing well?
 - a) Regular reporting on customer relations activity across the three areas to respective management teams. This has increased transparency and informed changes in service delivery.
 - b) Providing high quality advice and support on general complaint handling across all three areas.
 - c) Focusing on early resolution – actively reviewing initial enquiries to prevent unnecessary complaint escalation.
 - d) Providing timely and full responses to Ombudsman enquiries. Proactive prompting of deadlines is in place to help set clear and consistent standards.
 - e) Take up of the new Children's Customer Relations Team e-learning package has been significant, alongside raising awareness about the information and advice available to support effective complaints management.
 - f) Children's Customer Relations Team has developed Service Level Agreements with front-line services and increased the exchange of information between Quality Assurance Teams and the Customer Relations Team to inform practice delivery.

- g) Children's Customer Relations Team arranged the delivery of an LGSCO training course for over 150 officers on Effective Complaints Management. A further date is being arranged for newly appointed officers within Children's Social Care and Education.
- h) Adult Social Care Customer Relations Team holds urgent case reviews with Locality Managers to ensure a proactive approach to complaint handling and continues to deliver training and guidance for new managers and practitioners on handling complaints and responding effectively.
- i) Adult Social Care Customer Relations Team is using complaints to highlight challenges and focus on where things are going wrong to inform service improvements; this includes process changes within the complaints handling process itself
- j) All teams provide guidance on the management of challenging behaviours to help with the delivery of unwelcome messages, manage the impact on service delivery and prevent relationships with customers deteriorating.

52. What do we need to continue to work on?

- a) Training and support to create a strong customer ethos that cuts through each part of the organisation – putting our customers at the heart of what we do every day.
- b) Drive changes to behaviours and the way we work to build better relationships with our customers and support improved collaboration and engagement.
- c) Reduce the financial impact of complaints by getting things right first time more often and make sure all staff feel empowered and have the time to respond positively to customer complaints.
- d) Showcase good practice and share more widely the learning from complaints.
- e) The Corporate Customer Relations Team will:
 - Develop training on effective complaints handling for corporate complaints building on the online training developed by the Children's Team.
 - Support work to improve quality of communications and response times to address concerns before they become complaints.
- f) The Children's Customer Relations Team will:
 - Arrange the delivery of further Training on Effective Complaints Management by the LGSCO to improve the quality of initial

complaint responses.

- Continue to support services in embedding a culture of Early Resolution and Learning from Complaints.
- Continue to support colleagues in developing a 'hands on' proactive communication approach to managing concerns with a focus on resolution and putting things right.

g) The Adult Social Care Customer Relations Team will:

- Focus on the link between complaint handling and service performance by continuing to support teams with their complaints responses and highlighting the key trends identified from the quarterly reports.
- Promote getting the basics right by highlighting the need for good record keeping and encouraging the necessity for clear audit trails of how and why decisions are made.

Financial and value for money implications

53. Payment of financial redress (as shown in Figures 4 and 5) is the financial implication of complaint handling. Responding to complaints quickly and getting issues resolved early ensures complaints do not escalate unnecessarily through the process and minimises the requirement to pay financial redress.

Equalities and Diversity Implications

54. Ensuring we maintain good complaint handling processes enables our service to remain accessible to all. We continually review ease of access to all three complaints procedures to ensure particular groups, and people with protected characteristics, are not disadvantaged in any way. Should an equality or diversity issue be identified through a complaint investigation, this will be addressed directly with the service concerned and remedial actions put in place. The learning will also be shared as part of the Council's commitment to equality, diversity, and inclusion.

Risk Management Implications

55. The complaints process does not have any direct risk management implications; however complaints do carry a risk to the council's reputation if not handled appropriately. We routinely review and report on complaints data to ensure our processes are effective and to minimise any risk.

Next steps:

56. The Audit & Governance Committee to receive information on operation of the Council's complaints procedures on an annual basis, supplemented with a mid-year update and separate report on the Local Government & Social Care Ombudsman's annual letter.

Report contact: Sarah E.M Bogunovic, Head of Customer Strategy & Futures

Contact details: Tel: 07977266706, sarah.bogunovic@surreycc.gov.uk

Annexes:

1. Examples of learning identified through customer feedback
2. Extracts of compliments
3. Summary graphs from main report

Sources/background papers:

- Surrey County Council complaints tracker, Adult Social Care Customer Relations Team, Children's Customer Relations Team.
- Decision Notices available on LGSCO [website](#)

Annex 1: Examples of learning identified through customer feedback

Customer said: Relative complained there was no suitable discharge planning for the service (or patients) with incontinence and not having the ability to access services as soon as they arrive home. Unhappy with the care agency, as staff were inexperienced with irregular timings of care.

We did: Learning identified that there should have been discussion of managing incontinence and actions agreed early in the pre-planning post discharge from temporary placement back home. Team were reminded of the importance of making early referrals to the continence team, who are best placed to provide advice and information and complete an assessment as appropriate

Customer said: Complaint by ex-wife of service user who had informed staff several times that she did not want to be contacted for any reason regarding the service user, due to their difficult relationship. Staff continued to contact her. Most recently she was asked if she would visit and sit with him and wait for the ambulance to arrive.

We did: All staff in team were reminded of the necessity of accurately updating the records with information provided and ensuring all services involved are acting on current accurate information, and further training was provided to staff on working with disclosures of a sensitive nature, to ensure these are managed in a timely and sensitive manner and information is shared

You said: Parent complained about insufficient reimbursement of costs incurred when transporting a child to and from school due to delay in providing contractual Home to School Transport

We did: We are reviewing the Transport Policy to ensure that parents are not disadvantaged; we are including publication of a Guide to Home to School Transport that accompanies the Policy for ease of reference for residents, families, young people, and council officers

You said: Parent complained that the Council was incorrectly directing how Direct Payments should be used. This impacted on a young person's ability to access recreational activities during the Covid-19 Pandemic.

We did: We recognised that for both Direct Payments and Personalised Budgets across Education and Social Care Services there was a lack of clarity around the application of the regulations. We are currently reviewing the policy to ensure that it is fair and equitable.

Customer said: Complaint that the Council is not putting a copy of its Environmental Impact Assessment (EIA) screening options on its own planning register

We did: Change in procedure so that this information will be added to the county council's online planning register going forward as this will make the information accessible to more people.

Customer said: Complaint about failure to coordinate works which had resulted in the surface of a newly maintained pavement being damaged by utility works

We did: Complaint identified that there was an administrative error by our contractor. The Highways Engineering Team visited the site to identify required re-programming of the slurry seal pavement works once the utility works had been completed. The works were then carried out at our contractor's cost.

Annex 2: Extracts of compliments received

ADULTS:

Mental Health & Commissioning Team: Crest Lodge stated during the difficulties they were experiencing with challenging service users over the last month, that they felt consistently supported by you. They wanted their thanks and appreciation to be shared with you and your management team. Thank you on behalf of the management team who value that you went the extra mile in providing support to a provider experiencing a challenging situation.

DoLS: I would like to compliment Surrey DoLS team, I have interacted with many supervisory bodies in my role, but none have taken such a proactive and supportive approach not just for the person a DoLS is about but the responsible authority. It is very refreshing, and I appreciate it deeply, keep up the good work.

Transition Team: We just wanted to let you and your Team know what a positive experience the whole process was for us all. We are truly grateful for the timely help and support we have received at such a precarious time for the family. The understanding and consideration shown to us by the team/panel as a whole is very much appreciated. A big "THANK YOU" for all the hard work you do, with limited resources in such difficult times.

Guildford Locality Team: You have been able to see the reality of our situation, so clearly. I have no idea how you got to be so insightful, but I feel you have been sent to us like a guardian angel and I can never thank you enough for your time, care and genuine compassion and understanding.

Tandridge Locality Team: The OT a member of your team has been a great help and support assisting me with the care of my husband who has dementia. Throughout my husband's journey she has offered advice and practical support providing necessary walking aids, sliding sheets and most recently a hoist. This has ensured that I am able to care for my husband with less worry and more effectively.

Learning Disability and Autism Team: Thank you for your hard work, commitment, and professionalism in giving my daughter the ability to be cared for in an appropriate manner. I did email previously to explain her situation and care needs and did so in a factual way so as not to cloud the situation with emotion. However, this email will be more emotionally driven as I just wanted you all to know what you have given to both my daughter and myself.

CHILDREN'S & EDUCATION

Fostering Service: "Our supervising social worker, X, is absolutely amazing. We have benefitted from her experience and knowledge since we started our journey. X is supportive and we have relied on her for advice when things have got tricky as well as "just being there" when things are smoother. X is a credit to the local authority, and we are thankful."

NW Assessment Team: We, at Y, would like on the record that we think X is possibly the best social worker we have worked with. X is approachable,

available, friendly, astute and most of all, honest with all parties. X is able to understand the whole picture and be sympathetic to all concerned; her fair approach to situations is really easy to work with.

SE Family and Safeguarding Team: Please can I flag up what a superb job X is doing supporting our son who is at Y in Cranleigh where he is at school being looked after for his full autism diagnosis. Our son is a wonderful and challenging young man and X has been brilliant showing real intelligence wisdom and practical support to make sure he is properly looked after and has visited him at school and home and stayed in frequent contact and often gone the extra mile to be helpful. X is a real credit to the Council and reflects very well on your services and is a model Social Worker and deserves real recognition for all her great efforts.

NE Family and Safeguarding Team: I want to thank you, for your positive entrance and involvement in my case at a time when the world seemed to be closing in on me, my children, and my life. I also want to thank X, from the bottom of my heart, for being so professional yet kind and empathetic and nurturing. My children have grown to trust and look forward to seeing her...as have I. X, in my opinion, is like that one teacher who changes your life. She has been patient, supportive and most of all has helped me lessen to parent again. Our child wants to be a social worker now because of the positive work and influence of X. X is a fantastic social worker and a credit to Surrey. I will genuinely never forget X; I will never go backwards again, and I will be the best parent I can be because of this journey (that's been the hardest thing I've ever done)

HOPE: "Hi X, I know we only spoke this morning, but I just wanted to give a personal THANK YOU for championing N's needs. He may not say the same directly, but I know he is grateful for your help."

NE Education and Inclusion Service: I must say you have been amazing and my child and myself attended a viewing of the school a few days ago, my child was overjoyed and felt she would be very happy there and that was down to seeing how the SRP will support and facilitate her needs. This has come from your support and input within these last months and as her mum and on her behalf, we thank you and will always be grateful! - You have helped give her the best start she and I could ask for, and without your input we never would have been provided with this transition process which I reinforced was paramount from the start. Thank you for listening, responding, and always calling me back, when things are uncertain this is so important and helpful.

CORPORATE:

Blue badge: I would just like to thank you most sincerely for processing my blue badge so quickly as I appreciate how busy you are. It will make a real difference to my life, so I felt it was appropriate to send my thanks.

Surrey History Centre: Many thanks. The information you gave enables me to go forward to support very dear, and old, friends who heretofore had little knowledge of their parent's history.

Registration: Dear Registration Service, we wanted to say thank you for the most wonderful ceremony on Saturday, it was absolutely lovely, and we had

so many comments from guests about how beautifully the words were delivered and also how meaningful they are. So a huge thank you to the two registrars.

Highways: I would like to thank your department for acting so promptly in getting Thames Water to unblock a drain and for arranging your Highways team in filling in a dangerous pothole.

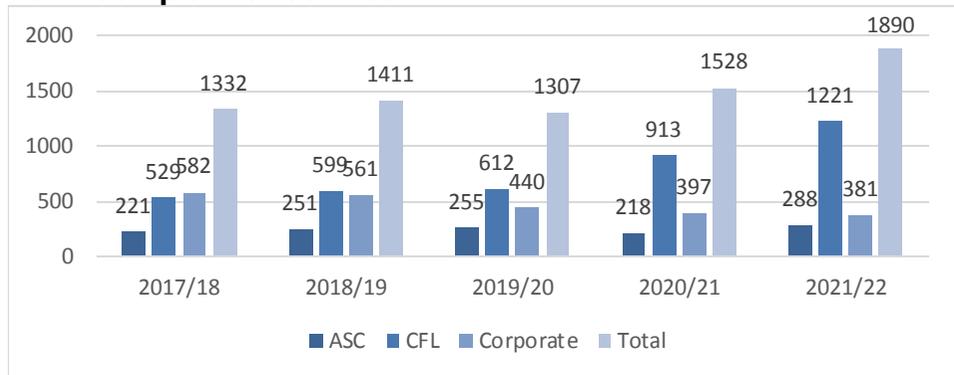
Libraries: I just wanted to email you to say a very big thank you to X the Librarian who showed me around when I first came to the library with my daughter. She always greets you, deals with your needs hastily and respectfully, and most importantly she's got an intense enthusiasm and excitement around little ones, my daughter genuinely jumps up and down when it's Rhyme time. Thank you to everyone for the effort to make this a beautiful place to learn and have fun.

Contact Centre: I just wanted to give some feedback to say that yesterday a lady called X helped me out with some issues renewing my concessionary bus pass and she was such a great help. She sorted everything out for me and really took the time to help and got back to me quickly. Her manner on the phone was fantastic, really understanding, and clear. Thank you so much for your help!

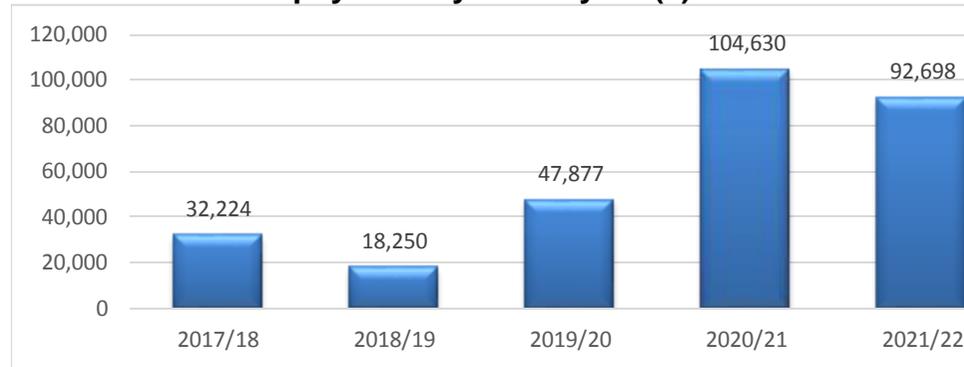
Surrey Fire & Rescue: I just wanted to email to say a big thank you to both these teams for doing a really wonderful job at 2.30am when we had a fire at our home about 3 weeks ago. They came very quickly and found us easily even though we are in the middle of nowhere! They were very calm and clear with their instructions and sorted everything out very efficiently. We felt safe in their hands and were very grateful for the way they put us all at our ease and with a great sense of humour too. These have been such challenging times for all of us. Thank you so much for all that you are doing. We feel very blessed to know that you are a phone call away but have no plans to need you in the future!

Annex 3: Summary graphs from main report

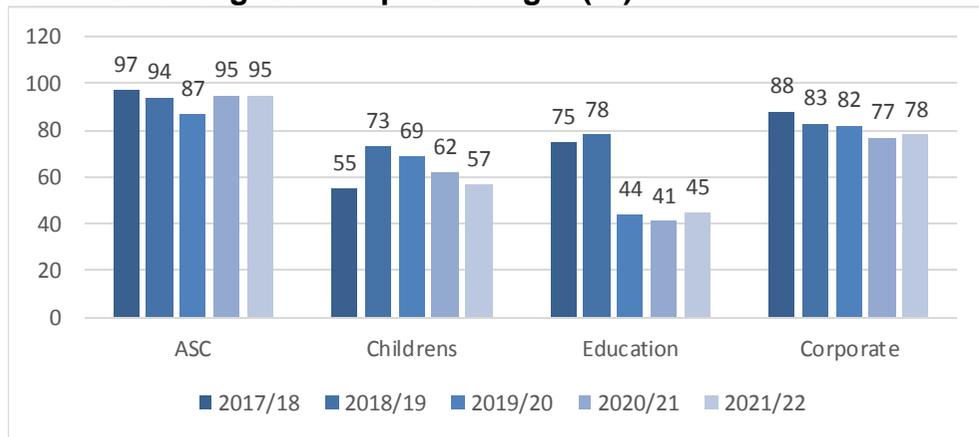
Total complaints received



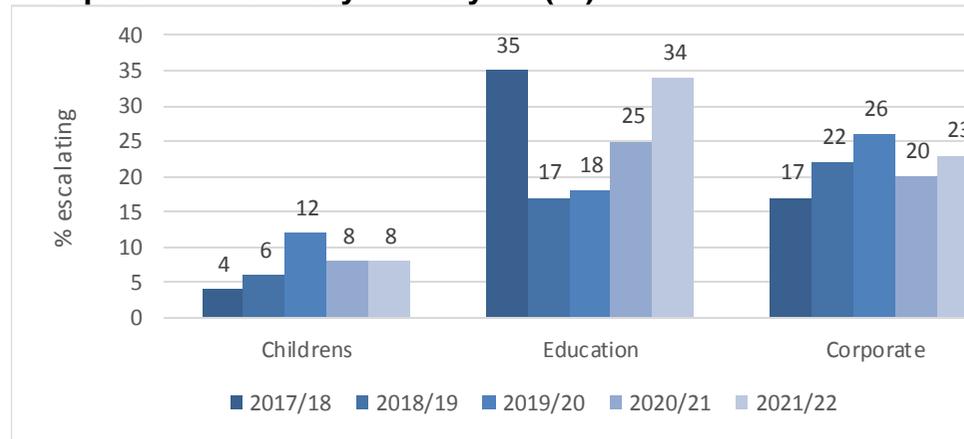
Financial Redress payments year-on-year (£)



Performance against response target (%)



Complaint escalation year-on-year (%)



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Audit & Governance Committee
13 June 2022

Highway & Transport Budgets

Purpose of the report:

To provide an introduction and overview of the Highway & Transport budgets and associated decision making policies and procedures.

Recommendations:

It is recommended that the Audit and Governance Committee:

1. Note the contents of the report; and
2. Confirm any further reports into specific areas of the response the Committee requires.

Introduction:

3. The scope of activity carried out by the Highways & Transport Service is wide ranging, and different budget management approaches are necessary to ensure national and local, as well as strategic and operational requirements are met. The content of this report aims to provide a high-level introductory summary of the capital and revenue budgets managed by Highways & Transport. It also describes the ongoing work to provide further guidance for members on the activities covered.
4. Budgets for Highways and Transport (H&T) are managed based on the approach advocated or advised by legislative requirements and also that of the strategic and policy documents which are aligned to the delivery of Surrey County Council's strategic priorities.
5. Highway & Transport budgets are determined and managed in order for Surrey County Council (SCC) to meet its statutory obligations. [Well Managed Highways Infrastructure: A Code of Practice](#) describes a

number of legal requirements, and both the Department for Transport (DfT) and SCC have endorsed its use. This Code includes ensuring, so far as is reasonably practicable, that safe passage along Surrey's highway is maintained in accordance with Section 41 of the Highways Act 1980. In addition, the Traffic Management Act 2004 has a requirement for Highway Authorities to facilitate and secure efficient movement of traffic along our highway network. In alignment with the [Highways Infrastructure Asset Management Guidance](#) document published by the UK Roads Liaison Group (UKRLG), the Council's approach brings together a range of factors that influence asset management priorities.

6. The [Highway & Transport Asset Management Strategy](#) sets out how Surrey County Council manages its highway infrastructure assets with consideration given to whole life costs, associated risks and alignment with Surrey's corporate objectives. This Strategy was last updated and approved by the Cabinet Member for Infrastructure and Transport under delegated authority from Cabinet in December 2020 and will be reviewed again in December 2022.
7. The Council's existing Local Transport Plan (LTP3) gives us the overarching policy framework and strategic direction for much of our work and investment in relation to transport. This is being replaced by the new LTP4, which was subject to public and stakeholder consultation in 2021 and 2022. LTP4 is set to be approved by Cabinet in May and Full Council in July and is already being used to shape our plans and programmes with an emphasis on zero carbon, thus supporting a core ambition of the Council.
8. A range of other policies and guidance documents are also relevant, including our Road Safety Outside Schools Policy and our Speed Limit Policy. These have helped to shape the priorities and investment programme for the new funding areas in 22/23.
9. Beyond adhering to the legislative and strategy frameworks, decisions on budget spend are primarily based on three drivers: (a) there is a routine operational requirement to do so (e.g. cutting highway verges); (b) there is a strategic requirement to act, i.e. from the results of strategically gathered data, such as statutory inspection, condition or road safety collision records; and/or (c) there is a local requirement to act, i.e. from the results of more locally gathered data, such as member or resident requests. It is important to note that the approaches are not mutually exclusive. For example, whilst the Horizon programme is primarily led by the results of condition data and asset lifecycle intervention models, it is also influenced by member and customer nominations. Similarly, whilst members can decide what they would like to spend their individual allocations on, officers will support that decision making with data, evidence and policy guidelines.

Capital and Revenue Highway & Transport Budgets

Capital

10. Capital budgets are used to maintain and improve Highway and Transport Assets including roads, pavements, bridges, traffic signals and safety barriers. They are also used to provide new infrastructure such as pedestrian crossings, bus infrastructure and infrastructure to facilitate Active Travel.
11. Capital budgets available for Highways and Transport are approximately £98m per annum. The breakdown of activity is shown in the table below, including an indication of the primary decision-making approach. Following the announcement at Full Council on 24 May 2022, the capital budget for 22/23 has been increased by a further £15m, taking the total budget allocation this year to approximately £113m.
12. Capital budgets are made up of a number of sources. £25.7m of the total comes from DfT grants for Highway Maintenance, and this allocation level will remain as it is for the next 3 years. Approximately £3m of our DfT highway maintenance allocation is dependent on SCC being able to demonstrate the application of the Asset Management approach described above. Further DfT grants have been awarded for Active Travel/LCWIP schemes. Other capital funding comes from external sources, including developer/CIL contributions and Local Enterprise Partnership allocations. However, not all activity is covered by a grant or external source, and the remaining balance is funded by SCC.

Table 1. Highways and Transport Capital Budgets

Capital Activity	2022/23 £000
Member decision led activity	
• Local Highways Schemes	3,165
• Additional Local Highways Schemes	8,000
Highway Asset Strategy decision led activity 'Horizon Programme'	
• Highway Maintenance (roads and footways)	55,270
• Bridge/Structures Maintenance	10,102
• Safety Barriers	1,510
• Flooding & drainage	1,422
• Intelligent Traffic Systems Maintenance (Traffic Signals)	2,915
Other Highway Asset decision led activity	
• Illuminated Street Furniture	1,900
• Street Lighting LED Conversion	5,239
• Drainage Asset Capital Maintenance/Improvements	1,000
• Highway Maintenance – Signs	400
Transport Strategy decision led activity	

• Active Travel (both EATF & future)	3,517
• Surrey Quality Bus Corridor Improvement	449
• Ultra Low Emission Vehicles - Community Transport - Third Sector	2,716
• Ultra Low Emission Vehicles - Bus Companies	600
• LCWIPS	1,500
• Local Enterprise Partnerships (LEP) Funded Schemes	7,324
• Active Travel (both EATF & future)	400
• Designated Funds - School Road Junction	1,100
• Ultra Low Emission Vehicles - Bus Companies	5,600
• Surrey Quality Bus Corridor Improvement	125
Road Safety decision led activity	
• Road Safety Schemes	200
• School road safety schemes	1,000
• Smallfield Safety Scheme (CIL)	339
H&T service operational support activity	
• Replacement Vehicles	150
• Real Time Traffic Monitoring (Traffic Studies)	123
• Other - (Grant Funded Speed Cameras, ANPR at CRCs, Traffic Systems)	50
Other	
• External funding (presumed total of funding received from developers, CIL etc)	1,200

113,316

Revenue

13. Revenue budgets are used for routine and reactive works such as tree maintenance, gully cleaning, winter gritting, providing local bus services and delivering road safety initiatives such as pedestrian and cycle training for children and young people. Members also have a revenue allocation to use on highway activities which is typically spent, under member direction/choice, on locally determined maintenance activities that would not otherwise be covered by other revenue budgets.
14. Revenue budgets available for Highway and Transport works are approximately £51m per annum. The breakdown of activity is shown in the table below, including an indication of the primary decision-making approach. Revenue budgets provided by SCC are supported by grants from the Department for Education for Bikeability and the Department for Transport in relation to the Bus Service Operator Grant.

Table 2: Highways and Transport Revenue Budgets

Revenue Activity	2022/23 £000
Member decision led activity	
• MEMBER LOCAL HIGHWAY FUND	608
• LOCAL SCHEMES ALL AREAS (Feasibility/Tech Ass)	200
Highway Routine Maintenance decision led activity	
• ENVIRONMENTAL MAINT - COUNTYWIDE (grass, weeds etc)	1,502
• DRAINAGE (gully cleaning, repairs, high speed traffic mgt)	3,854
• WINTER MAINTENANCE	2,780
• SAFETY BARRIERS	287
• SIGNS ENERGY	2,864
• STREET LIGHTING PFI	11,704
• TRAFFIC SIGNAL MAINTENANCE	1,021
Reactive/Inspection decision led activity	
• HIGHWAY REPAIRS COUNTYWIDE – (Emergency Response, safety defect repairs)	3,007
• GENERAL MAINT Structures/Bridges	1,449
• CONDITION REPAIRS - (ad-hoc customer focused repairs)	405
• ILLUMINATED ST FURNITURE	641
• STREET FURNITURE	30
• ENFORCEMENT	10
• STRATEGIC TREE MAINTENANCE	1,738
• LINES COUNTY WIDE	456
• SIGNS AND LINES	400
Transport Routine decision led activity	
• DIRECT COSTS CONCESSIONARY FARES	7,004
• LOCAL BUS SERVICE CONTRACTS DIRECT	9,585
• PASSENGER TRANSPORT INITIATIVES	321
• COMMUNITY TRANSPORT	416
• BIKEABILITY - CYCLE TRAINING	222
• FASTWAY	23
Road Safety decision led activity	
• ROAD SAFETY ENFORCEMENT	5
• ROAD SAFETY ENGINEERING	25
• SCHOOL CROSSING PATROLS	162

50,721

Budget Decision Making and Prioritisation

15. Given the broad remit of responsibilities the Highways & Transport Service covers, multiple decision making and prioritisation processes are necessarily employed. These vary from those that are strategic to those that are very local.

16. For example, key highway assets are prioritised for the capital Horizon maintenance programme based on [criteria](#) approved under delegated authority by the Cabinet Member for Infrastructure and Transport, which are aligned to the national and local strategic frameworks set out above. This ensures that whatever funds are available are spent on the most appropriate schemes at the right time and that schemes are prioritised to maximise risk reduction and minimise whole life costs for SCC.
17. Other areas that utilise criteria based on strategic policy include the [Road Safety Outside Schools](#) programme and [Tackling Speeding](#) programmes, further details of which are due to be endorsed at the Cabinet Member meeting in June 2022.
18. At a more locally determined level, the Local Schemes capital budget totals £11.2m in 22/23 and is split between a direct allocation to each Divisional Member (i.e. the revised £100k per Member making £8.05m) and a Countywide Integrated Transport Scheme (ITS) budget (£2.95m). Full details of how this is allocated and will be prioritised is detailed in the Cabinet report of Feb 22 ([available here](#)).
19. For revenue activities, most of the budget is used to fulfil the statutory requirement and reflects the ongoing volume of demands of the operational service. The decision making is mostly dictated by the need to carry out statutory functions, such as provision of bus services and/or routine activities, such as winter gritting, or to respond to inspection/survey data which identifies safety hazards that the Council needs to address so that we protect residents' safety and minimise SCC's liability.
20. Each revenue activity will have a different decision making process depending on the asset or service type, the risks involved, the desired or required service level and what is deemed to be reasonable in terms of meeting the statutory requirement. For example, as a default position, all road gullies are scheduled to be cleaned once per annum, although this can differ depending on the history of the gulley – in areas prone to flooding this may increase to every 6 months, but in low risk areas this is reduced to every two years.

Communication of Approach/Decision Making to Members

21. When considering how to progress member or resident related highway requests, officers will often need to make a judgement on where best to direct the issue for consideration of/decision making on funding. Some requests are more straightforward than others. For example, a request for road repairs would normally be checked against the Asset Strategy future Horizon programme to see if it will be addressed in a timeframe that aligns with the expectations of the member, or otherwise officers may recommend progressing an alternative repair scheme using the member allocation if not.

22. Where improvements to the highway are requested, often the situation is more complex, and officers will need to work with members to determine the most appropriate route to fund and implement them. This may include seeking external funding such as Community Infrastructure Levy (CIL), submitting them as a Countywide ITS scheme request or determining whether they may potentially be included in other strategy based programmes such as the Road Safety Outside Schools programme or Active Travel programme. This is often an iterative process as the request is considered in more detail with the funding route not always easily identifiable at the outset. Whilst not the intention, it is acknowledged that this process can sometimes be perceived as confusing and lacking in transparency for members.
23. In order to support a better relationship with Members going forward, an Engagement and Stakeholder Team have been developed and are now in place to support Members and act as a conduit into the service. They will work with Members, providing support in managing and ensuring delivery of works prioritised by them from their capital and revenue allocations. 22/23 commitments are currently being finalised with members.
24. A detailed A-Z of the highway and transport service is being prepared which will build on the information already provided to Members and aims to simply explain how we manage the service for the benefit of all Surrey residents. The intention of this document will be to provide greater transparency for Members, and it will include flowcharts explaining the decision processes associated with the service and the above budgets. Given the scope of activities under consideration and the importance of producing something meaningful and that adds clarity to how the Highways & Transport service operates, it is anticipated that the document will be piloted with both the Audit & Governance Committee and Communities, Environment & Highways Select Committee members in June prior to it being made more widely available to all Members.
25. In the meantime, we would encourage Members to continue to liaise with the Service's Engagement and Stakeholder Team on any queries they may have and/or use the sources of information already available to them. This would include the previously-issued Members guide circulated by the Cabinet Member for Transport and Infrastructure.

Financial and value for money implications

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

Equalities and Diversity Implications

27. There are no direct Equalities and Diversity Implications of this report.

Risk Management Implications

28. There are no direct Risk Management Implications of this report.

Conclusions:

29. The reports aims to provide an introductory overview of the Highway & Transport Budgets. A variety of legislation, national and local policy is used to support the decision-making process and prioritisation of the various budgets. Management of safety risks to residents, achieving value for money, alignment with government and SCC priorities, and responding to local needs are key to the prioritisation of spend across all budgets. It is acknowledged that further work is required to provide transparency to Members on the decision making processes involved and Officers are progressing work to achieve this objective.

Next steps:

Following discussion at the Audit & Governance Committee of this introductory report, it is anticipated that further work will be undertaken to progress the objective of providing further clarity to Members on Highways & Transport budgets. This will include a request for Committee members to pilot the early A to Z document, with the intention that they provide feedback so that officers can continue to develop this as required. Officers will return to the Audit & Governance Committee later in the year to discuss specific elements of the budgets in further detail as required.

The Service will also continue to report on performance and delivery at the Communities, Environment and Highways Select Committee as agreed in previous Cabinet recommendations.

Report contact: Lucy Monie, Director of Highways and Transport

Contact details: lucy.monie@surreycc.gov.uk

Annexes

None

Sources/background papers:

- [Highway & Transport Asset Management Strategy](#)
- [Well Managed Highways Infrastructure: A Code of Practice](#)
- [Highways Infrastructure Asset Management Guidance](#)
- [SCC Capital Prioritisation Policy](#)
- [SCC Cabinet Report of February 2022](#)
- [Road Safety Outside Schools Policy](#)



**Audit & Governance Committee
13 June 2022**

2021/22 Draft Annual Governance Statement

Purpose of the report:

This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year ending 31 March 2022.

Recommendations

It is recommended that the committee:

1. Review the contents of the draft Annual Governance Statement (Annex A) to satisfy themselves that the governance arrangements are represented correctly; and
2. Commend the draft Annual Governance Statement for publication with the council's Statement of Accounts.

Introduction

- 1 The council is required to annually review the effectiveness of its governance arrangements and produce an Annual Governance Statement. Once signed by the Leader of the Council and the Chief Executive, the Annual Governance Statement is incorporated in the Statement of Accounts.

Annual Governance Statement 2021/22

- 2 The 2021/22 draft Annual Governance Statement is attached at Annex A and includes:
 - A summary of the key activities during the year and the main elements of the governance framework;
 - An update on the actions taken on the key issues identified in the 2020/21 AGS; and
 - An action plan for the issues identified in this year's AGS.

Consultation

- 3 The Governance Panel, Executive Director of Resources, Director of Law and Governance, Chief Executive and Leader of the Council have been consulted and their comments are incorporated.

Implications

Financial

- 4 There are no direct financial implications arising from this report. Continued improvements in governance will support the delivery of the council's objectives.

Equalities

- 5 There are no direct equalities implications of this report.

Risk management

- 6 Strong governance arrangements support the council in the effective delivery of services and achievement of objectives.

What happens next

The Annual Governance Statement will be signed by the Chief Executive and the Leader of the Council and then incorporated into the council's Statement of Accounts for 2021/22.

REPORT AUTHOR: Paul Evans, Director of Law and Governance and Chair of the Governance Panel

CONTACT DETAILS: paul.evans@surreycc.gov.uk

Sources/background papers: Code of Corporate Governance. CIPFA/SOLACE framework *Delivering Good Governance in Local Government*.

DRAFT ANNUAL GOVERNANCE STATEMENT 2021/22

Surrey County Council has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, that there is a sound system of governance, appropriate controls are in place and that public money is safeguarded and properly accounted for. This Annual Governance Statement describes significant organisational and service activities during 2021/22, progress against key issues raised in last year's governance review and identifies key areas of focus for 2022/23, and provides assurance the Council is complying with its Code of Governance and the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government" (2016).

Organisational Governance

Surrey Community Vision

Notwithstanding the continued challenges and impacts brought about by Covid-19, the 2030 Community Vision and Organisation Strategy have remained key to providing the continued focus to support residents and communities during 2021/22.

- The Surrey Forum was established in 2021 as a multi-agency partnership set up to provide strong and visible leadership for Surrey and realise the full economic, social, and environmental potential of the county. The Forum brings together partners from Surrey County Council, district and borough councils, the business community, higher and further education, and the voluntary community and faith sector (VCFS). It complements existing partnerships and enables partners to better co-ordinate, align and collaborate as the county emerges from Covid-19. The Surrey Forum will work closely with the existing Strategic Partnership Boards (Health and Wellbeing Board, One Surrey Growth Board, Greener Futures Board) who oversee and respond to significant issues in Surrey.

Covid 19 – ongoing recovery

The Recovery Co-ordinating Group (RCG), established by the Surrey Local Resilience Forum in April 2020 to co-ordinate and manage the impacts of the Covid-19 pandemic across Surrey, was stood down in July 2021. The work of the RCG was focused on shorter term 'restart and restore' actions, with existing agencies and partnerships identified to have accountability for medium- and longer-term actions. Where issues did not have a relevant group to take them forward, some new processes/partnerships were established (e.g. Surrey Interfaith Forum, Surrey Charities Forum). As well as identifying delivery partners for the actions, strategic partnerships (e.g. Health and Wellbeing Board) took on a governance role to ensure the proposed actions were fully considered, implemented, and communicated as appropriate. Written documentation was produced recording the agreed allocation of delivery and oversight responsibilities. The impact of the pandemic, as well as recovery across the county was measured through datasets brought together in the [Local Recovery Index](#). Updates on Covid 19 recovery and the legacy of 'Building Forwards Better' is reported to the Surrey Forum.

Twin track and budget

Although significant progress has been made over the last twelve months to improve the Council's financial position, the medium-term financial outlook remains uncertain and financial resources will continue to be constrained. Existing approaches to delivering efficiencies will be largely exhausted by 2022/23 so a 'twin track' approach will be in place going forward, running the 2022/23 budget setting process whilst simultaneously developing

a new cross cutting approach to identifying and delivering efficiencies from 2023/24 onwards. This approach helps plan overall outcomes and will help put the Council on a stable financial footing over the medium term. It also sets in train a more ambitious transformation programme which will be more collaborative both internally and with partners. Outcomes from the twin track work will significantly influence the shape of the transformation programme from 2023/24 onwards.

Workforce

The key focus in 2021/22 has once again been to support the Council through the Covid pandemic and providing the appropriate guidance, particularly with regards to frontline staff who support some of our most vulnerable residents. There was increased activity around wellbeing communications and webinars, particularly addressing mental health issues, stress and fatigue.

The Council's Agile Transformation Programme has seen real acceleration during the year, with staff adopting different working practices and using technology to facilitate virtual collaboration and hybrid meeting practices across different sites. Internal communications continue to support staff with practical information, advice and support, but also providing Chief Executive and Executive Directors' blogs and vlogs to communicate key messages, as well as to share best practice, recent updates and engaging content.

The Council's Equality, Diversity and Inclusion action plan was refreshed in March 2022 with a greater emphasis to support residents and our workforce with protected characteristics, and those who experience other inequalities (such as socio-economic inequality) to have more opportunities to have improved outcomes. There has been increased focus on our employee reference groups (ERG's) and sponsorship from the Corporate Leadership Team has provided support in some of the challenges that are faced by our diverse workforce.

The latter part of 2021/22 has seen the progression of our "Workforce of the Future" strategy to provide focus to key people priorities around our Pay & Reward offer, new approaches to attracting younger candidates and supporting youth groups into work and a renewed focus has been concentrated on tackling specific attraction, recruitment and retention issues across the Council.

Health Integration

The health and care landscape has undergone significant change this year in preparation for the passage of the Health and Care Act. The Act abolishes the Clinical Commissioning Groups (CCGs) that formerly held statutory responsibility for health commissioning for local populations and replaces them with Integrated Care Systems (ICS). From July 2022, these new legal entities will assume the responsibilities previously held by CCGs and additional commissioning responsibilities delegated by NHS England including ophthalmology, dentistry, and pharmacy. The ICS replicate the previous geographic footprint of the CCGs and therefore Surrey County Council is a statutory partner in two ICS - Surrey Heartlands Integrated Care Partnership and Frimley Integrated Care Partnership.

During 2021/22 Surrey County Council has been working closely with both ICSs to support the development of these new organisations, including the relationship between new the Integrated Care Partnerships and existing Surrey-wide statutory bodies such as the Health and Wellbeing Board. During this year the Council has built on the positive partnership working of the initial pandemic response with continue support to hospital discharge, infection control in care homes managing health and care outside of hospital settings and supporting the testing and vaccination programmes. The two new joint roles within Surrey

Heartlands Integrated Care System, the Executive Director for Public Service Reform and the Executive Director for Integrated Commissioning and Adult Social Care have established integrated teams and these joint working arrangements are being formalised. The Health and Wellbeing Board, in implementation of the refreshed Health and Wellbeing Strategy, have agreed a number of priority populations for whom efforts to address health inequalities within Surrey will be focused.

Service-specific governance considerations

Children's Services

The Ofsted inspection in early 2022 found that services for children and families in Surrey have improved in all areas meaning that the service is no longer in intervention. The inspectors found that the service requires improvement to be rated as good but had 'improved' since the last inspection in 2018.

The Youth Offending Service (YOS), which works with some of our most disadvantaged young people, has been recognised as 'Good' by HM Inspectorate of Probation (HMIP), having been 'Inadequate' in 2019.

Oversight and scrutiny of the improvements to children's services continue to take place at the Surrey Safeguarding Children's Partnership, the Surrey Corporate Parenting Board and the Children, Families, Lifelong Learning & Culture Select Committee. Detailed action plans are in place which will take the service through to the next full inspection.

Surrey County Council, along with many other councils, has seen an increase in the cost of supporting young people with special educational needs and disabilities (SEND). The costs are charged to the High Needs Block of the Dedicated Schools Grant (DSG). Over the last few years, costs have outstripped the DSG grant received as demand has increased and there is a DSG deficit of £118m in the balance sheet by 31 March 2022. As the DSG is ring-fenced, there can be no direct contribution from the General Fund. The council has created an "Offsetting Reserve" equal to the DSG deficit to ensure stability and resilience in the balance sheet. A SEND Transformation programme has been set up to bring about the changes needed to reduce demand and costs. In March 2022, the council successfully negotiated a "Safety Valve" Agreement with the Department for Education (DfE). The agreement involves delivering on all aspects of the Transformation programme, in return for £100m from the DfE alongside £144m contribution from the existing council reserve set up to offset the costs, and transfers from the Schools Block and DSG balances.

Rethinking Waste programme - Waste Procurement

Following an extensive data gathering and engagement exercise with the waste market, all Surrey Districts and Boroughs and peer Waste Disposal Authorities (county and unitary councils), the Council will shortly be commencing the re-procurement of Waste Disposal Authority Service contracts to move away from an integrated contract to several separate contracts for specific elements of the service, ahead of the conclusion of the current arrangements in September 2024. These proposals have been examined by the Communities, Environment & Highways Select Committee and members of the Committee have supported the proposals.

The Rethinking Waste programme is governed by a programme board chaired by the Executive Director for Environment Transport and Infrastructure and overseen by the Major Projects Board. Challenges regarding how the Eco Park will be taken to market are currently being considered by the Eco Park member reference group as well as CLT and a wider team of subject matter experts.

MySurrey

The Digital Business & Insights (DB&I) programme to implement a new Enterprise Resource Planning (ERP) system commenced in September 2020. The new system (MySurrey) go live was due to be implemented during the year but has been delayed twice due to data migration and HR requirements scope issues, which has led to additional funding requirements. Following a period of re-planning, a revised critical path for the launch of MySurrey later in the year has been agreed with senior stakeholders.

The Deputy Chief Executive and Executive Director of Resources is the Senior Responsible Officer for the Programme and chairs the Strategic Programme Board which oversees the project and makes strategic decisions, allocates resources and manages issues and risks. Where appropriate, strategic risks for the programme are escalated to the Council's Corporate Risk Register.

Highways Contract

The current arrangements to deliver highways maintenance and improvement activities expired in April 2022 and a new contract arrangement was put in place. A "Competitive Procedure with Negotiation" procurement exercise was completed to identify the next provider and the winning bidder was presented to Cabinet in September 2021.

A Member Reference Group from the Communities, Highways and Transport Select Committee supported and scrutinised the development of the procurement strategy, the outputs of the procurement process and, more recently, the mobilisation phase. During the procurement phase progress reports were presented to Informal Cabinet and the Major Projects Board and have continued into the mobilisation phase – this has allowed opportunity for assurance of the programme's progress against the timeline, feedback on emerging themes and to enable input and steer the process as it evolved.

Surrey Fire and Rescue Service

An inspection by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) reported in December 2021 that since the last inspection in 2018, Surrey Fire and Rescue Service had made good progress and has resolved two performance concerns regarding managing its resources and responding to emergencies. However, the report judged that the service still requires improvement at effectively and efficiently keeping people safe and secure from fire and other risks and requires improvement at looking after its people. Further changes are also needed, including measuring the impact of its fire prevention work, testing its plans for dealing with major incidents, such as a terrorist attack, and ensuring there is a robust recruitment and retention plan.

Adult Social Care

Officers are currently working through the implications and financial modelling of the Social Care Reform changes, due to come in to force in October 2023. The financial implications of the workforce changes needed, the funding cap and establishing the fair cost of care are dependent on the level of government support provided, which so far is not clear. Officers are working with colleagues in other councils to ensure government is fully apprised of the risk implications and costs.

Governance Systems Assurance

During the year an updated risk strategy and framework was approved by the Audit and Governance Committee and updated in the Constitution of the Council. A new format risk register was developed and embedded in each Directorate to focus on the underlying causes of risks, the possible effects and the controls and mitigations. In addition, a Corporate Risk Register and Corporate Risk Heat Map have been established to clearly identify the top risks faced by the Council.

The annual review of corporate governance policies and process was carried out by the Council's Governance Panel, and Internal Audit completed a review of corporate governance. Both reviews concluded that governance systems are in place with many being updated and improved throughout the year. The reviews recommended that further work could improve accessibility, training, and communication of key governance systems to give more confidence these were understood and embedded across the organisation.

A full Member Induction Training Programme was delivered to all new and returning County Councillors following the County Council elections in May 2021 covering the core elements of Council governance including the Code of Conduct, members interests, data protection and security, member/officer relations and the use of social media.

A twelve-month review was carried out following the Council's adoption of a new Code of Conduct for councillors in May 2021. The Code expanded on the previous principles-based Code and introduced specific obligations on councillors. The Council also introduced a new procedure for considering complaints which emphasised informal resolution and a criteria-based assessment of complaints. The review concluded members were aware of the Code of Conduct, understood the policy and it was considered fit for purpose. No breaches of the Code were found.

The council's External Auditor's report on value for money published in February 2022, which looked at the year 2020/21, reported improvements have been made in the areas of financial sustainability and improving economy, efficiency and effectiveness. The report identified only two key weaknesses and recommended firstly; the pensions transformation programme should continue to be implemented to clear the backlog of pensions administration work, and secondly; the Council should continue to focus on the implementation of the Children's Services improvement plan. The External Auditor noted that both these weaknesses were identified by the Council in last year's Annual Governance Statement with transformation programmes already in place by the Council to address failings, which have been monitored and reported on during the year.

The Council's financial management arrangements during 2021/22 fully complied with CIPFA's Statement on "The Role of the Chief Finance Officer" (CIPFA, 2010). The Deputy Chief Executive and Executive Director of Resources (s151) met his financial responsibilities during the year and ensured financial management arrangements were in place. He reports directly to the Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor and other Executive Directors.

An assessment of compliance with the CIPFA Financial Management Code was undertaken during the year. The review concluded that the Council could demonstrate overall compliance with the standards, evidence could be strengthened for a small number of indicators, and there are several areas where, because of various changes over the past two years including the Finance Improvement Programme and the Finance Academy, the Council's arrangements exceed the standards.

During the year an Independent Member was appointed to the Audit and Governance Committee for a period of four years.

The Chief Internal Auditor has provided reasonable assurance that the council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022. Overall, whilst the majority of audit opinions

issued in the year were generally positive, internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by one minimal assurance opinion and eight partial assurance opinions issues in the year. Actions have been agreed with management to address weaknesses in control identified in these reviews.

The Council's governance arrangements for 2021/22 are regarded as fit for purpose and are in accordance with the governance framework shown in Annex A. The Council is committed to maintaining these arrangements and ensuring that the improvements required are prioritised and sufficiently resourced. The action plans below show progress on the improvement areas identified last year and the areas for improvement this year.

2020/21 Annual Governance Statement Action Plan – Follow Up

Issue identified during 2020/21	Action taken during 2021/22
<p>Children's Services</p> <p>To continue to make improvements in our Children's Services.</p>	<p>Continued focus on Children's Services improvement through oversight and scrutiny of action plans and ongoing activity.</p> <p>Update provided on page 3 of the AGS.</p> <p>Improvement in Children's Services are ongoing and will continue to be reviewed by external inspectors.</p>
<p>Pensions Administration</p> <p>To continue improvements in the Pensions Administration service and integrate with the Pension Fund team.</p>	<p>The Pensions Transformation Programme has continued to address improvements in people, process, and technology. The new organisational structure is now a single team encompassing, investments, accounting, governance, and administration for a sovereign Surrey Fund.</p> <p>Improvements in Pensions Administration are ongoing and included in the 2022/23 AGS action plan.</p>
<p>Governance</p> <p>To promote good governance not only through systems and process but emphasise behavioural characteristics and values.</p>	<p>The centre for governance and scrutiny are part way through a review of the organisational characteristics, behaviours, and values which evidence good governance in all its elements, to promote high standards across the organisation.</p> <p>Included in the 2022/23 action plan</p>
<p>Land and 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>A Land and Property "purpose and Strategy" program has focused on:</p> <ul style="list-style-type: none"> -implementing Planon – an integrated property work management system; -a new project planning and risk framework for all capital projects; -a culture, values, and skills project for all staff; -a new operating model for facilities management; -a review of finance, risk, audit recommendations, performance, and stakeholder engagement.

Issue identified during 2020/21	Action taken during 2021/22
<p>Risk Management</p> <p>To continue to develop the Council's risk management approach and embed across the organisation.</p>	<p>A new risk management framework has been introduced. Risk registers are in place for each Directorate and being updated as a live document. As required, risks are escalated to the Corporate Risk Register to provide a view of the top risks that could impact the Council (or de-escalated as appropriate).</p> <p>Risk management arrangements continue to develop, and updates are provided to Cabinet and assured through the Audit and Governance Committee.</p>
<p>Company Governance</p> <p>To ensure the Council's companies meet best practice in oversight, planning and governance arrangements.</p>	<p>Further improvements have been made to the governance arrangements for Council companies including, business planning, oversight, training and development on the role and responsibilities of directors and conflicts of interest, risk management reporting and scrutiny.</p>

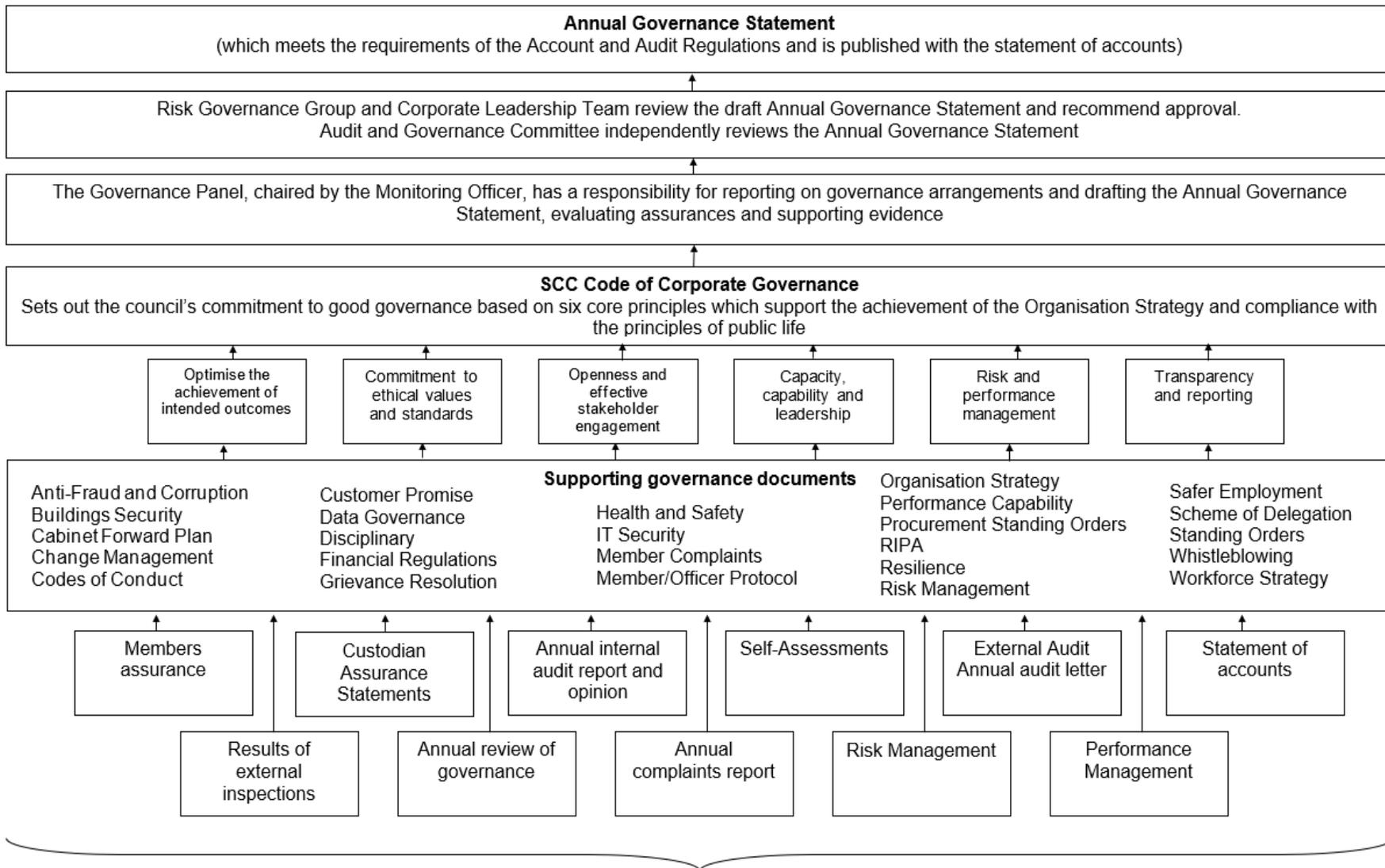
2022/23 Annual Governance Statement Action Plan

Issue identified during 2021/22	Action to be taken during 2022/23
<p>Pensions Administration</p> <p>To continue improvements in the Pensions Administration service and integrate with the Pension Fund team.</p>	<p>Transition the Pensions Helpdesk and control of Pensions Bank Account.</p> <p>Finalise induction approach and "about us" video.</p> <p>Implement recommendations from Value Stream Mapping work (with systems provider Heywoods).</p>
<p>DB&I programme-MySurrey</p> <p>To ensure the DB&I programme is implemented successfully.</p>	<p>The programme will complete go-live of the new fully integrated Unit4 solution to manage the Council's back-office finance, procurement, HR and payroll processes in addition to payrolls for external customers. The focus in the coming months is the completion of user acceptance testing, payroll parallel running and delivery of the required tasks to transition the Council from SAP to Unit4 in time for go-live.</p>
<p>Governance</p> <p>To promote good governance not only through systems and process but emphasise behavioural characteristics and values.</p>	<p>The Governance Panel will coordinate improved accessibility, training, and communication of key governance systems.</p> <p>A Surrey Approach to cultural and behavioural governance will be implemented focusing on:-</p> <ul style="list-style-type: none"> -Extent of recognition of individual and collective responsibility for good governance. -Awareness of political dynamics. -How the council looks to the future to set its decision-making priorities. -Officer and councillor roles.

Issue identified during 2021/22	Action to be taken during 2022/23
	<ul style="list-style-type: none"> -How the council's real situation compares to its sense of itself. -Quality of local (external) relationships. -The state of member oversight through scrutiny and audit.
<p>Children's Services Improvement</p> <p>To continue to make improvements in our Children's Services.</p>	<p>An action plan will be submitted to Ofsted by 22 June to focus improvement on</p> <ul style="list-style-type: none"> -The quality and effectiveness of assessments and plans for all children, including disabled children, homeless 16- and 17-year-olds and privately fostered children. -Partnership work to secure support for children and young people's mental health and well-being -The provision of essential information to carers about children and viability assessments to inform placements with friends or family. -The sufficiency of suitable accommodation for young people, including care leavers. -The quality and impact of supervision to ensure that decisions are timely and support the progression of children's plans. -The proportion of permanent staff, to reduce turnover.
<p>Surrey Fire and Rescue Service</p> <p>To continue to make improvements in SFRS.</p>	<p>Action plans will be regularly monitored and reported to the select committee against the following key actions</p> <p>Effectiveness – up to date risk information; evaluations of its prevention work; quality assurance process and audits; cross boarder learning and the adoption of national operational guidance.</p> <p>Efficiency – to monitor, review and evaluate outcomes of collaboration activity; effective measures of workforce productivity to assure efficiently and effectively meet Making Surrey safer Plan priorities; analysis and challenge of scenario planning.</p> <p>People – Identify and develop aspiring leaders; visible senior managers who model service values; timely response to feedback from staff; promotion of equality, diversity and inclusion; and more to understand bullying and harassment.</p>

Tim Oliver
 Leader of the Council
 July 2022

Joanna Killian
 Chief Executive
 July 2022



All these sources and others provide assurance on the adequacy and effectiveness of our controls over key risks

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Audit & Governance Committee
13 June 2022

External Audit Plan and Draft Statement of Accounts 2021/22

Purpose of the report:

To provide Audit & Governance Committee with an update on the Draft Accounts and the process for undertaking the audit.

Recommendations:

It is recommended that Audit & Governance Committee note the draft accounts and the process for undertaking the audit.

Introduction:

1. As a result of Covid-19, Ministry of Housing, Communities & Local Government (MHCLG) legislated to allow local authorities flexibility in the timescales for publishing draft accounts. The statutory deadline for publishing the draft accounts for 2019/20 was moved from 31 May to 31 August, with the deadline for audit sign-off moving from 31 July to 30 November.
2. For 2020/21, the deadlines were once again amended to 31 July for Draft Accounts and 30 November for audit sign-off and final publication.
3. Despite the flexibility, Surrey County Council adhered to the original timeline of producing draft accounts for both 2019/20 and 2020/21 by the end of May. The 2019/20 final accounts were signed by Grant Thornton, the external auditor, on 23 November 2020 and the 2020/21 final accounts were signed by the same auditors on 30 November 2022.
4. For 2021/22, the deadlines have remained at 31 July for Draft Accounts and 30 November for audit sign-off and final publication. The Chief Finance Officer is required, no later than 31 July 2022, to sign and certify that the draft Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2022. The Draft Statement of Accounts are attached as Appendix 2 to this report.

Inspection and External Audit

5. From the date of publication, the draft accounts are subject to a 30-working day Public Inspection Period, during which time any person interested may on reasonable notice inspect the accounts and supporting documents, except where the latter includes commercially sensitive or personal information.
6. The deadline for external audit to complete their review and sign the accounts is 30 November. The External Audit Plan is attached as Appendix 1 to this report and will set out the approach that Grant Thornton will take to the audit and their expected timetable to conduct the audit between July and November.
7. The final accounts and Audit Findings Report are scheduled to be presented to this committee by 30 November

Conclusions:

8. The Council's Draft Accounts are attached to this report for consideration.

Financial and value for money implications

9. There are no financial or value for money implications of this report. The Draft Statement of Accounts includes a Narrative Statement which sets out the key elements of the Statement of Accounts.

Equalities and Diversity Implications

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

Risk Management Implications

11. There are no direct risk management implications of this report. The Council's approach to risk management is summarised in the Narrative Statement.

Next steps:

12. The final, audited Statement of Accounts and Audit Findings Report are scheduled to be presented to this committee by 30 November.

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Sources/background papers:

Appendix 1 – External Audit Plan 2021/22

Appendix 2 – Draft Statement of Accounts

Surrey County Council and Surrey County Council Pension Fund audit plan

Year ending 31 March 2022

May 2022



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

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Key matters - Council

Factors

Council financial position

Progress continues to be made to improve the Council's financial position however the medium-term financial outlook beyond 2021/22 remains uncertain. The public health crisis has resulted in increased costs which may not be fully funded. With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected in the medium term, the Council's working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. The Council recognises that this places an onus on management to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.

The Council is reporting a £1m surplus outturn for the year 2021/22 without the need to draw on reserves. The continuing impact of Covid for the year amounted to £99.4m and was financed by a combination of specific funding of £75.7m and general emergency funding from Department of Levelling Up, Housing and Communities of £23.7m. The Council is reporting a 78% achievement (£32.1m) of its efficiency target of £41.2m set at the start of the year. A significant proportion of the shortfall was within Children, Families, Lifelong Learning due to a number of factors including inflationary pressures in transport and increasing demand.

The Council set a capital budget of £185m at the start of the year which was later revised down to £170.6m in the last quarter of the year. The capital spend for the year was £162.4m which represents a 95% performance against the revised budget.

Accounting and auditing developments – IFRS 16 Leases deferral

Following an emergency consultation on proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its decision and feedback statement in March 2022. The decision allowed for Local Authorities to defer implementation of IFRS 16 Leases until 01 April 2024. It did however allow for Authorities to adopt the standard before this date should they wish to.

Pension Fund

Following the Russian invasion of Ukraine that has led to the UK Government sanctions Local Government Pension Scheme funds are being advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken. The Moscow Stock Exchange closed on February 28 2022 and an apparent ban on western companies from selling Russian investments was imposed by prime minister has compounded investors' liquidity problems, with markets for Russian stocks and government bonds drying up.

Members as the Funds Trustees are expected to uphold their fiduciary duties, prioritising scheme returns and the proper payment of pensions. However, Members are allowed to consider ethical factors concerning investments, and can divest from problematic assets provided that this does not prove materially detrimental to the scheme. The Pensions Regulator has asked all schemes to ensure that their investments are aligned with the UK government's sanctions on Russia.

McCloud

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes. The McCloud remedy will be implemented in two phases that will impact the 2022-23 financial year.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Executive Director of Resources.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit and Governance Committee updates.
- We will review your level of pension fund exposure in Russian and Belarus including the balances of valuation to ensure they are not materially misstated.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Halsey Garton Property Ltd
- Hendeca Ltd
- Surrey Choices Ltd

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

Council

- The risk that the valuation of land and buildings in the accounts are materially misstated.
- The risk that the valuation of investment properties in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £26.6m (PY £25.9m) for the Group and £26.5m (PY £25.8m) for the Council which equates to approximately 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.3m).

Materiality - Pension Fund

We have determined materiality at the planning stage of our audit to be £50m (PY £38.5m) for the Pension Fund, which equates to approximately 1% of the 2020/21 net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.5m (PY £1.9m).

Introduction and headlines (cont.)



Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following areas of focus for our value for money assessment:

- Delivery of the planned financial performance in 2021-22, along with the future plans of the Council in 2022-23 and beyond including savings plans
- Delivery, monitoring and management of the Council's capital plans
- Review of arrangements for reporting and monitoring key strategic risks to members
- Review of how financial and performance information has been used to assess performance to identify areas for improvement.

Audit logistics

Our interim visit will take place in March 2022 and our final visit will take place between July – September 2022. Our key deliverables are this joint Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £214,948 (PY: £209,935) for the Council and £40,571 (PY: £35,571) for the Pension Fund, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Group audit scope and risk assessment

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Surrey County Council	Yes	Comprehensive	See page 7 onwards	Full scope audit performed by Grant Thornton UK LLP
Halsey Garton Property Limited	Yes	Component Audit	Valuation of Investment Property assets as at 31 March 2022	Full scope audit performed by UHY Hacker Young LLP The nature, time and extent of our involvement in the work of UHY Hacker Young LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor documentations and meeting with appropriate members of management.
Surrey Choices Limited	No	Analytical only	None	Analytical review performed by Grant Thornton UK LLP.
Hendeca Ltd	No	Analytical only	None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- None identified

Audit scope

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

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Surrey County Council including the Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk at for the Surrey County Council and Surrey County Council Pension Fund.</p>	
Management over-ride of controls	Council and Pension Fund	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals. • analyse the journals listing and determine the criteria for selecting high risk unusual journals. • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>The Council carries out a rolling programme of valuations that ensures all land and buildings required to be measured at current value is revalued at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.3 billion as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluate the competence, capabilities and objectivity of the valuation expert. • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • assess the value of a sample of assets in relation to market rates for comparable properties.
Valuation of investment properties	Council	<p>The Council revalues its Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£122 million as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022. We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluate the competence, capabilities and objectivity of the valuation expert. • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Council's records and financial statements. • assess a sample of Investment Properties in relation to market rates for comparable properties. • test the reasonableness of the assumptions used by the valuer in valuing Investment Properties.

Significant risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.1 billion in the Council's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
Valuation of Level 3 Investments (Annual revaluation)	Pension Fund	<p>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£494 million as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments. • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met. • independently request year-end confirmations from investment managers and the custodian. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period. • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. • where available review investment manager service auditor report on design and operating effectiveness of internal controls.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	Council and Pension Fund	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets.</p> <p>Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 7.</p>	<p>We will:</p> <ul style="list-style-type: none"> obtain an understanding of the design effectiveness of controls relating to operating expenditure. perform testing over post year end transactions to assess completeness of expenditure recognition. test a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Council and Group	<p>Infrastructure assets includes roads, highways, streetlighting and coastal assets. Last year the Council spent circa £78m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £432m which is over 15 times materiality.</p> <p>In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:</p> <ol style="list-style-type: none"> I. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. II. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. <p>For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.</p>	<p>We will:</p> <ul style="list-style-type: none"> reconcile the Fixed Asset Register to the Financial statements using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets obtain assurance that the UEL applied to Infrastructure assets is reasonable document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated

Other risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and presentation of the Private Finance Initiative (PFI) and similar contracts liabilities and associated disclosures	Council	<p>You have three schemes to be accounted for as PFI arrangements. These include waste PFI scheme, a Street Lighting scheme and a Care Homes scheme.</p> <p>The total liability relating to these schemes on prior year balance sheet was £98m.</p> <p>As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information, we have categorised them as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> review your PFI models and assumptions contained therein. compare your PFI models to previous year to identify any changes. review and test the output produced by your PFI models to generate the financial balances within the financial statements. review the PFI disclosures to assess whether they are consistent with International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models.
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	<p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£8.0 billion as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls. evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation. assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. test the consistency of disclosures with the actuarial report from the actuary. undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

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

Other risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 2 Investments	Pension Fund	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances. independently request year-end confirmations from investment managers and custodian. review investment manager service auditor report on design effectiveness of internal controls.
Contributions	Pension Fund	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> evaluate the Fund's accounting policy for recognition of contributions for appropriateness. gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls. agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports. test a sample of contributions to source data to gain assurance over their accuracy and occurrence. test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension Fund	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls. test a sample of lump sums and associated individual pensions in payment by reference to member files. test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

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

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

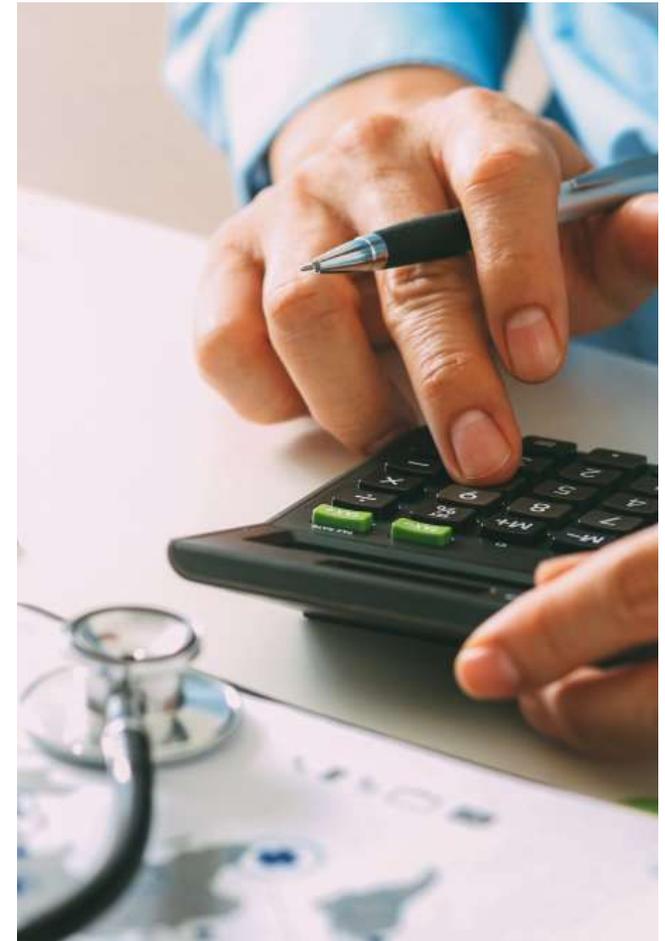
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Group we have identified the following material accounting estimates for which this is likely to apply:

Council

- valuations of land and buildings, and investment properties
- credit loss and impairment allowances
- expenditure accruals
- depreciation
- valuation of defined benefit net pension fund liabilities
- valuation of level 2 and level 3 investments
- year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- provision for business Rates Appeals
- Minimum Revenue Provisions
- PFI Finance Lease liability

Pension fund

- investments Level 3
- Present Value of Promised Retirement Benefits

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have shared a questionnaire with Management to obtain their responses over these accounting estimates. This document will be presented to the Committee for consideration and approval by those charged with governance once we have received these responses.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters - Council

Other work - Council

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other work – Pension Fund

The Pension Fund is administered by Surrey County Council (the ‘Council’), and the Pension Fund’s accounts form part of the Council’s financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council’s financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined planning materiality to be £26.6m (PY £25.9m) for the Group and £26.5m (PY £25.8m) for the Council which equates to approximately 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.3m (PY £1.3m).

Materiality - Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £50m (PY £38.5m) for the Pension Fund, which equates to approximately 1% of the Pension Fund's prior year net assets.

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

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.3m (PY £1.3m). For the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.5m (PY £1.9m).

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

Council prior year gross expenditure



Materiality

£26.5m
Council financial statements materiality (PY: £25.8m)

£1.3m
Council misstatements reported to the Audit & Governance Committee (PY: £1.3m)

Pension Fund prior year net assets



Materiality

£50m
Council financial statements materiality (PY: £38.5m)

£2.5m
Council misstatements reported to the Audit & Governance Committee (PY: £1.9m)

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed

- Delivery of the planned financial performance in 2021-22, along with the future plans of the Council in 2022-23 and beyond including savings plans
- Delivery, monitoring and management of the Council's capital plans
- Review of arrangements for reporting and monitoring key strategic risks to members
- Review of how financial and performance information has been used to assess performance to identify areas for improvement.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

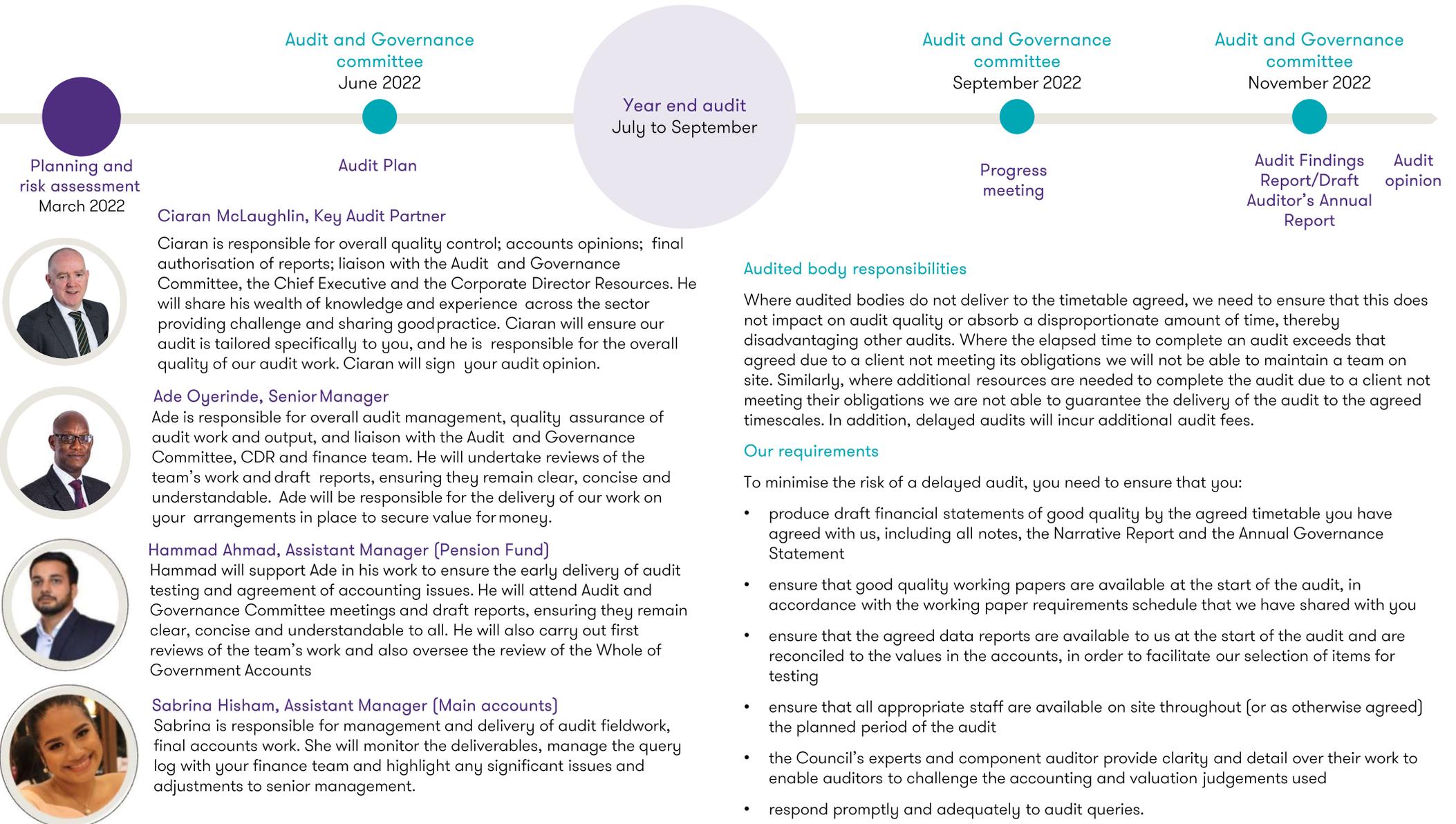


Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

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Planning and risk assessment
March 2022



Ciaran McLaughlin, Key Audit Partner

Ciaran is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee, the Chief Executive and the Corporate Director Resources. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Ciaran will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Ciaran will sign your audit opinion.



Ade Oyerinde, Senior Manager

Ade is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee, CDR and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Ade will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Hammad Ahmad, Assistant Manager (Pension Fund)

Hammad will support Ade in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will attend Audit and Governance Committee meetings and draft reports, ensuring they remain clear, concise and understandable to all. He will also carry out first reviews of the team's work and also oversee the review of the Whole of Government Accounts



Sabrina Hisham, Assistant Manager (Main accounts)

Sabrina is responsible for management and delivery of audit fieldwork, final accounts work. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Audited body responsibilities

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

Our requirements

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

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- the Council's experts and component auditor provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used
- respond promptly and adequately to audit queries.

Audit fees

In 2021, PSAA awarded a contract of audit for Surrey County Council and the Surrey County Council Pension Fund to begin with effect from 2018/19. The scale fee set by PSAA for 2020/21 was £115,415 for the Council audit and £20,871 for the Pension Fund. Since that time, there have been a number of on-going and new developments, particularly in relation to the revised Code and ISA's which are relevant for both 2020/21 and 2021/22 audits.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 13-15 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for {add details e.g. property valuations estimates}, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Executive Director of Resources.

	Actual Fee 2020/21	Proposed fee 2021/22
Council Audit	£209,935*	£214,948
Pension Fund audit	£35,571	£40,571
Total audit fees (excluding VAT)	£227,806	£255,519

* 2020/21 fee is inclusive of £17,700 fee overrun subject to PSAA approval

Assumptions

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

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and UHY Hacker Young providing services to the Council.

Other services

The other services provided by Grant Thornton are set out in the table opposite.

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

None of the services provided are subject to contingent fees.

There are no non-audit related services provided during the year.

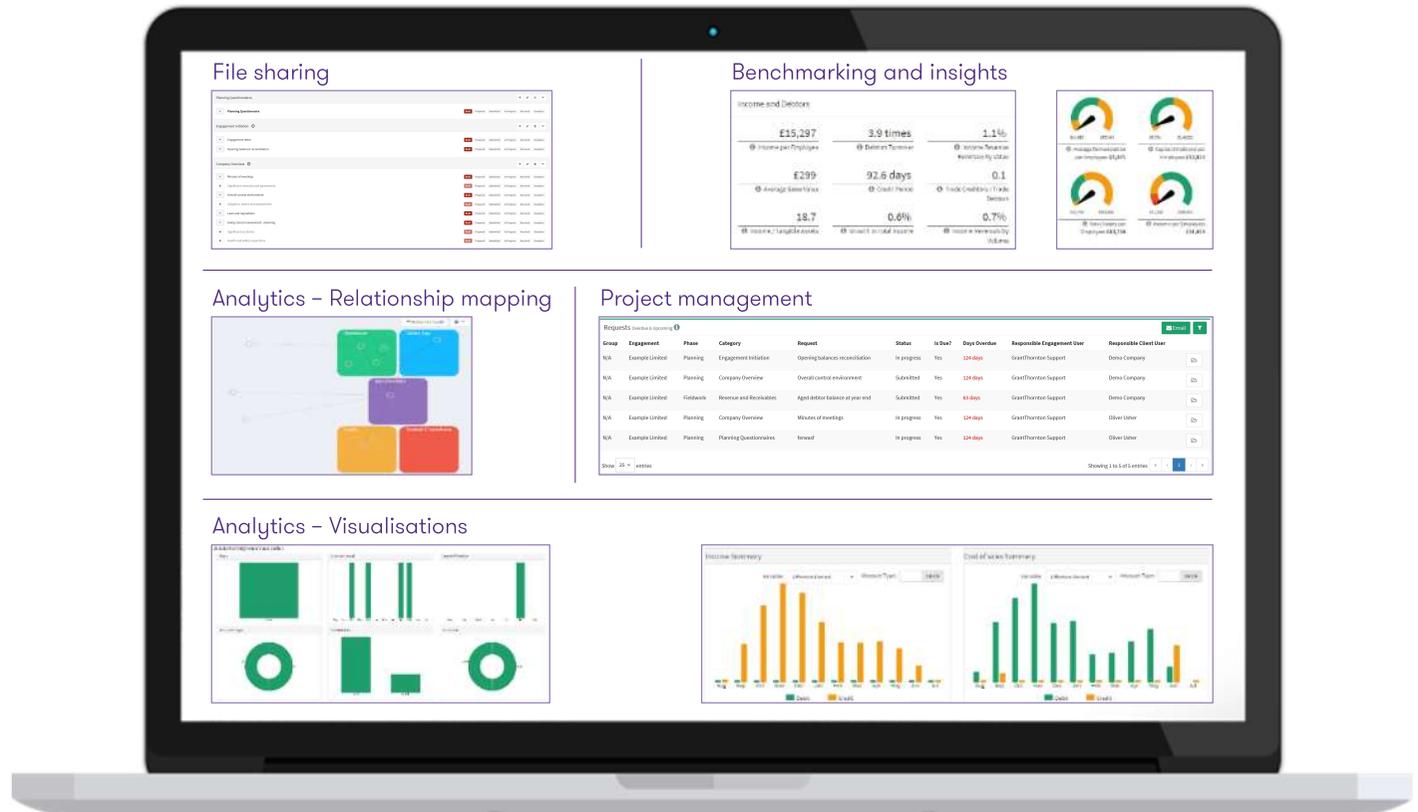
Service	Fees £	Threats	Safeguards
Audit related			
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	7,500	Self-interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
IAS19 Assurance letters for Admitted Bodies	14,575	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,575 in comparison to the total fee for the audit of £214,948 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations

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Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the group's financial statements. We will comment on each action in our Audit Findings Report .

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	<p>Investment Property valuations</p> <p>We note that 3 Investment Properties with a combined value of £1m were not revalued at year end in line with the Code. Two out of the three Investment Properties were subsequently revalued in quarter 1 of 2021/22. and the third was not revalued.</p> <p>Risk that all Investment Properties are not revalued annually in accordance with the Code and the year end valuation could be misstated.</p>	<p>Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.</p>
	<p>Group accounts consolidations</p> <p>We noted a number of errors in the group consolidation and supporting working papers</p> <p>Risk that the consolidated group accounts are materially misstated and misleading to the reader of the accounts</p>	<p>Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.</p>

Appendix 1: Progress against prior year audit recommendations (cont.)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	<p>SCC subsidiaries audit arrangements</p> <p>We experienced delays in receiving the subsidiaries audited accounts, supporting working papers and timely responses to auditor queries.</p> <p>Delays in receipt of subsidiaries audited accounts risks achieving the statutory deadlines for accounts preparation and audit of the accounts and adding further costs to the audit.</p>	<p>Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.</p>
	<p>Creditors completeness</p> <p>We noted a number of errors in the cut off testing of completeness in income and expenditure {unrecorded liabilities / income}.</p> <p>Risk of income and expenditure being materially misstated</p>	<p>Management accept the findings and will revise the closedown processes and procedures to build improvements into the 2021/22 audit.</p>



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