Grant Thornton

**Annex 2**

# Audit Findings Report for Surrey County Council

**For the Year ended 31 March 2019**

**29 July 2019**

# Contents




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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Surrey County Council ('the Council') and the Group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

| | | |
|---|---|---|
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:<br>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.<br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 15. We have identified several adjustments to the financial statements that have resulted in a net £30m adjustment to the Council's Comprehensive Income and Expenditure Statement, with no impact on the Council's usable reserves. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix C) or any further material changes to the financial statements, subject to the outstanding matters detailed on page 4, which include;<br>- receipt of a number of responses to outstanding audit queries (see page 4);<br>- receipt of management representation letter; and<br>- review of the final set of amended financial statements.<br>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.<br>**Our anticipated audit report opinion will be unmodified.** |
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We have completed our risk-based review of the Council's value for money arrangements. While progress has been made during the year to address both the performance of Children's Services and the Council's financial resilience we have concluded that Surrey County Council does not yet have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. More details on the significant risks identified and work carried out are set out on pages 16-22.<br>**We therefore anticipate issuing an adverse value for money conclusion, as detailed in pages 16-22 and Appendix C.** |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• To certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br>We have completed the majority of work under the Code but are unable to formally issue our completion certificate until we have completed the work necessary to issue our Whole of Government Accounts assurance statement and our consistency opinion in relation to the Pension Fund Annual Report for 2018/19. |

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

# Summary

### Overview of the scope of our audit

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

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

### Audit approach

Our audit approach was based on a thorough understanding of the group and Council's business and is risk-based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

The only change in our audit approach since we communicated our Audit Plan to you on 8 April 2019 has been the addition of a third Value for Money significant risk in relation to the completion of Eco Park as part of the Council's Waste PFI scheme.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding items being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 29 March 2019, as detailed in Appendix C. These outstanding items include:

- receipt of management's signed letter of representation;
- receipt and evaluation of external advice relating to the valuation of the Council's PPE Land & Buildings;
- response to an audit query on accounting treatment of entries relating to receipts in advance;
- receipt of an investment statement relating to a year-end money market fund;
- receipt of an analysis of a prior period error relating to PPE Land & Buildings valuations;
- receipt of a number of sample items relating to grant income, journals, other income, operating expenses, payroll expenses, assets under construction, and year-end payables and receivables;
- review of the final set of financial statements taking into account the impact of the McCloud judgment and GMP equalisation as per advice from the Council's actuarial specialist;
- completion of audit assessment of the PFI Eco Park asset based on responses to audit queries;
- review and approval of the final set of accounts; and
- completion of internal quality review arrangements.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the following table below our determination of materiality for Surrey County Council and the Group financial statements.

| | Value (£) Single Entity | Value (£) Group |
|---|---|---|
| Materiality for the financial statements | 30.0 million | 30.1 million |
| Performance materiality | 21.0 million | 21.1 million |
| Trivial matters | 1.5 million | 1.5 million |

# Significant findings – audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| 1 **Fraud in revenue recognition**<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br><br>This risk was reported in our audit plan. | **Auditor commentary**<br><br>As set out in our audit plan, having considered the risk factors set out in ISA240 and the nature of the revenue streams at the council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition;<br>• opportunities to manipulate revenue recognition are very limited; and<br>• the culture and ethical frameworks of local authorities including Surrey County Council mean that all forms of fraud are seen as unacceptable.<br><br>There are no changes to the above assessment from our audit plan, and revenue transactions and related balances have been subject to our standard suite of audit tests including sample testing.<br><br>Our audit work to date has not identified any issues in respect of fraud in revenue recognition. |
| 2 **Management override of controls**<br><br>Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.<br><br>This risk was reported in our audit plan. | **Auditor commentary**<br><br>We have:<br>• evaluated the design effectiveness of management controls over journals;<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration by appropriate evidence;<br>• gained an understanding of the accounting estimates and critical judgements applied by management in preparation of the accounts and considered their reasonableness with regard to corroborative evidence; and<br>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.<br><br>Our audit work to date has not identified any issues in respect of management override of controls. |

# Significant findings – audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **3 Valuation of land and buildings**<br><br>The Council revalues its land and buildings on a rolling basis to ensure that carrying value of assets is not materially different from current value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.09 billion in the prior year) and the sensitivity of the estimate to changes in key assumptions.<br><br>Additionally, management are required to address the risk that the carrying value of assets not revalued as at 31 March 2019 in the Council financial statements may be materially different from the current value at the financial statements date, where a rolling programme is used.<br><br>We identified the valuation of land and buildings revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatement.<br><br>This risk was reported in our audit plan. | **Auditor commentary**<br><br>We have:<br>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts ad the scope of their work;<br>• considered the competence, expertise and objectivity of any management experts used;<br>• discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions;<br>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;<br>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register,<br>• reviewed significant asset valuation movements against movements in indices relating to land and building values since the most recent previous valuation for reasonableness, and challenged these when necessary;<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value, including evaluation of management's paper on assets not revalued against the requirements of the CIPFA code;<br>• engaged our own external auditor's expert to support our assessment of the valuer's work in preparation of valuation figures for the purposes of the financial statements as at 31 March 2019; and<br>• challenged management to support the valuation of the Eco Park PFI development in assets under construction.<br><br>As identified above, it was determined through analysis of the significant movements in valuation of land and buildings this year that it was necessary for the audit team to engage their own external valuer to assist in reviewing the valuation methodology and assumptions employed by the Council's external valuer. The results of this work are expected to be received in the week commencing 22 July and will be evaluated alongside our other work on this significant risk area to date.<br><br>Subject to resolution of outstanding items, we can conclude that our audit work has not identified any issues in respect of valuation of land and buildings. |

# Significant findings – audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 4 | **Valuation of pension fund net liability**<br>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br>We therefore have identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.<br>This risk was reported in our audit plan. | **Auditor commentary**<br>We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;<br>• evaluated the instructions issued by managements to their management expert for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund liability;<br>• tested 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; and<br>• undertaken 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.<br>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The Government's application to the Supreme Court for permission to appeal was rejected in June 2019. The legal ruling around age discrimination also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits, including the Local Government Pension Scheme (LGPS).<br>In addition, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. GMPs must be equalised between men and women and past underpayments must be corrected. This will lead to increased costs for sponsors of defined benefit schemes (ie the LGPS) that were contracted out of the State Second Pension in the period from 17 May 1990 to 5 April 1997.<br>These matters have been considered by the audit team and our response is set out on page 8. An adjusted misstatement has been detailed in Appendix A relating to each pension scheme (LGPS and Firefighters). Management have agreed to adjust the accounts based on the revised IAS19 valuation report from the Actuary.<br>Subject to receipt of a revised set of financial statements we can conclude that our audit work has not identified any issues in respect of valuation of the pension fund liability. |

# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

| | Issue | Commentary | Auditor view |
|---|---|---|---|
| 1 | **Potential impact of the McCloud judgement and GMP Equalisation – LGPS and Firefighters' Pension Schemes**<br>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.<br>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.<br>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. | Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.<br>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP equalisation. The actuary's estimate, taking into account movements on actual return of assets now available for the final months of 2018/19, was of an increase in pension liabilities of £58.3m, and an increase of costs charged to the Surplus or Deficit on Provision of Services of £32.3m. | We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.<br>We are of the view that there is sufficient evidence to indicate that a liability is probable, and therefore have asked the council to amend their reporting of figures relating to the IAS 19 liabilities under the LGPS and Firefighters' Pension Schemes to match the revised actuary's reports. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.<br>An adjusted misstatement has been detailed in Appendix A relating to each pension scheme. |

# Significant findings – key judgements and estimates

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Provisions for NNDR appeals - £24.9m** | The Council are responsible for repaying a proportion of successful rateable value appeals. Management rely on information provided by Surrey district councils to calculate the level of provision required.<br>The Council obtains annual Collection Fund returns which details information such as Council Tax and Business rates precepts to Surrey County Council, along with Surrey County's share of the surplus from different Collection Funds and entries from the Districts/Borough Council's Collection Fund Statements. | We reviewed:<br>• appropriateness of the underlying information used to determine the estimate;<br>• impact of any changes to valuation method;<br>• consistency of estimate against peers/industry practice;<br>• reasonableness of decrease in estimate; and<br>• adequacy of disclosure of estimate in the financial statements.<br>Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied by Surrey County Council.<br>Due to an error in information provided by Elmbridge District Council, the provision was understated by £2.8m. This error has been included in Appendix A as an adjusted misstatement. | Green |
| **Minimum Revenue Provision - £19.2m** | The Council are responsible for determining a reasonable and prudent methodology for charging of an annual Minimum Revenue Provision, with reference to relevant statutory guidance.<br>The Council charge MRP:<br>• For investment properties: Over a 100 year life<br>• For equity investments: Over a 100 year life<br>• For loans to subsidiaries: No MRP charges<br>• For pre-2008 capital expenditure: 4% per year<br>• For post-2008 capital expenditure: Over life of asset<br>• For assets under PFI schemes: Over life of the scheme<br>The MRP policy for 2018/19 was approved by the full County Council at their meeting in February 2018.<br>The MRP policy for 2019/20 was approved by the full County Council at their meeting in February 2019. | We have:<br>• reviewed the MRP policy for 2018/19<br>• reviewed management's workings, and<br>• challenged the MRP assumptions for prudence<br>It is our view that the estimate is unlikely to be materially misstated, however management's estimation process contains assumptions we consider optimistic, as the revised guidance for 2019/20 onwards states that MRP should be charged on the following basis:<br>• For equity investments: Over a maximum economic life of 20 years<br>• For investment properties: Over a maximum economic life of 50 years<br>• For loans to subsidiaries: Over the life of assets purchased using the loans<br>Management should review the appropriateness and prudence of the policy and ensure that the charge to revenue remains prudent to cover the council's capital financing requirement in future years. | Amber |

**Assessment**
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Land and Buildings – Other - £1,144m** | Land and buildings comprises £1,144m of assets and includes assets such as schools and libraries, which are required to be valued on a variety of different valuation bases at year end.<br><br>The Council has engaged Bruton Knowles LLP to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 24% of total land and buildings assets were revalued during 2018/19.<br><br>The valuation of properties valued by the valuer in 2018/19 has resulted in a net increase of £121m.<br><br>Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2019, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the value of these properties. | We considered and completed the following in the course of our testing:<br>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts ad the scope of their work;<br>• considered the competence, expertise and objectivity of any management experts used;<br>• discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions;<br>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;<br>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register;<br>• reviewed significant asset valuation movements against movements in indices relating to land and building values since the most recent previous valuation for reasonableness, and challenged these when necessary;<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value, including evaluation of management's paper on assets not revalued against the requirements of the CIPFA code; and<br>• engaged our own external auditor's expert to support our assessment of the valuer's work in preparation of valuation figures for the purposes of the financial statements as at 31 March 2019.<br><br>Our work is substantially complete, however it was determined through analysis of the significant movements in valuation of land and buildings this year that it was necessary for the audit team to engage their own external valuer to assess this movement and the valuation methodology and assumptions employed by the Council's external valuer. The results of this work are expected to be received in the week commencing 22 July and will be evaluated alongside our other work on this significant risk area to date. | ● **Incomplete** |

**Assessment**
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgments and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £1,739m** | The Council's total net pension liability at 31 March 2019 is £1,886m as per the draft financial statements, (PY £1,576m) comprising the Local Government Pension and Firefighters' Pension schemes.<br><br>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.<br><br>There has been a £94m net actuarial loss during 2018/19. | We considered and completed the following in the course of our testing:<br>• assessment of management's expert;<br>• assessment of actuary's approach taken, with detailed work undertaken to confirm reasonableness of approach including comparison of actuarial assumptions to accepted ranges (below); | Green |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.4% | 2.4% - 2.5% | Green |
| Pension increase rate | 2.5% | 2.5% - 2.4% | Green |
| Salary growth | 2.8% | 2.2% - 3.2% | Green |
| Life expectancy – Males currently aged 45 | 24.1 | 23.7 – 24.4 | Green |
| Life expectancy – Females currently aged 45 | 26.4 | 26.2 – 26.9 | Green |

- considered completeness and accuracy of the underlying information used to determine the estimate;
- Considered reasonableness of the Council's share of LGPS pension assets;
- assessed the impact of Guaranteed Minimum Pension benefits between males & females; and
- assessed adequacy of disclosure of estimate in the financial statements.

Our audit work has not identified any significant issues in relation to the pensions disclosure. The actuarial assumptions made by Hymans Robertson and accepted by the Council were reviewed by the audit team. Our review concluded that the assumptions made by Hymans Robertson LLP were reasonable following discussions with the Council.

In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to the Council's circumstances.

Additionally, the Council's net liability has been materially affected by the outcome of the Court of Appeal judgements made in respect of pensions (McCloud ruling re age discrimination). See page 8 for further details of the effect this has had on the audit and the financial statements.

**Assessment**
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgments and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Fair value of investments** | The Council hold an investment in its subsidiary Halsey Garton that is valued on the balance sheet as at 31 March 2019 at £93m. The investment is not traded on an open exchange or market and the valuation of the investment is subjective. Management have judged that the fair value of this asset is the same or not materially different to the value of cash invested in the subsidiary.<br><br>The value of the investment has increased by £21m in 2018/19 due to additional investment by the Council. | We have:<br>• challenged management to support the assertion that the investment is held at a materially appropriate value at year-end, and reviewed their assessment against supporting information; and<br>• confirmed that the basis of valuation is in line with the requirements of applicable accounting standards.<br><br>Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied by Surrey County Council. | Green |
| **Valuation of asset under construction – Eco Park PFI** | Management capitalise costs in relation to the Eco Park energy from waste asset as they are incurred. The asset was due to become operational on 7 November 2017 and is therefore significantly delayed.<br><br>The Eco Park asset technology has yet to be tested. We are aware that there have been reliability issues for similar energy from waste plants in the UK. If it does not meet the required standards as set out in the contract between the Council and its external partners it may be impaired. | We have:<br>• challenged management to provide an assessment from a suitably qualified person supporting their judgment that the asset value is not impaired, and reviewed that assessment;<br>• gained an understanding of the costs capitalised for the Eco Park asset and the basis for recording these in the Council's financial statements;<br>• reviewed professional advice provided to the Council in respect of the Eco Park assets; and<br>• reviewed relevant schedules from the Council's external partners and advisors relating to the operational status of the asset.<br><br>Our work on this matter is not yet complete. | Incomplete |



**Assessment**
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Significant findings - Going concern

### Our responsibility

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

### Going concern commentary

| Management's assessment process | Auditor commentary |
|---|---|
| Management provided the audit team with their assessment of the appropriateness of the use of the going concern basis of accounting.<br><br>The consideration and assessment of the relevance of the going concern basis of accounting was linked to the 2019/20 budget and financial strategy, covering the period from 2019-24. | • Management's formal assessment of the use of the going concern basis of accounting covers the period from 1 April 2019 to 31 March 2020. We consider Management's process in reaching its judgements to be reasonable. Furthermore, the Council has a robust financial plan in place which provides assurance that the Council will continue to deliver services for a period of greater than 12 months after the anticipated date of issue of the auditor's opinion. |

| Work performed | Auditor commentary |
|---|---|
| We:<br>• held regular discussions with officers about the financial standing of the Council;<br>• reviewed management's assessment of going concern assumptions and supporting information, including the Budget 2019/20 and Medium Term Financial Strategy; and<br>• reviewed the completeness and accuracy of going concern disclosures in the financial statements. | • As at 31 March 2019 the Authority is halfway through the financial improvement programme, which was originally designed to deliver c£200m of savings, to ensure its future financial viability. It has achieved savings of £106m made up of budgeted savings of £66m and an in year cost reductions of £40m. The savings achieved in 2018/19 has avoided the use of any reserves, which were budgeted to be £21.3m.<br>• The revenue outturn for the year represented an underspend against the original budget of £21.8m, resulting in a contribution to usable reserves of £0.5m. This is against the original forecast drawdown from reserves of £21.3m. This is an important step towards financial resilience and stabilisation of the Authority's financial outlook. Despite the favourable outcome for the year further financial challenges should not be underestimated. The Authority continues to face uncertainties arising from, the still to be announced, "Fair Funding Review" and the continuing rise in demand for its services while achieving the second tranche of savings in its two year programme of £82m in 2019/20.<br>• The Authority's Medium Term Financial Strategy published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute.<br>• Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future based on setting a medium term financial strategy to 2023/24. For this reason, they continue to adopt the going concern basis in preparing the financial statements. |

### Concluding comments

We have reviewed management's assessment and are satisfied that the going concern basis is appropriate for the 2018/19 financial statements.

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| | Issue | Commentary |
|---|---|---|
| 1 | **Matters in relation to fraud** | • We have previously discussed the risk of fraud with the Audit & Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2 | **Matters in relation to related parties** | • We are not aware of any related parties or related party transactions which have not been disclosed. |
| 3 | **Matters in relation to laws and regulations** | • You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work. |
| 4 | **Written representations** | • A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended to this report.<br>• Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for:<br>– The Council's land and buildings valuations<br>– The Council's Minimum Revenue Provision Policy<br>– The Council's assessment that the Eco Park asset under construction is not impaired<br>– Prior period adjustments |
| 5 | **Confirmation requests from third parties** | • We requested from management permission to send confirmation requests to HSBC UK in respect of bank balances at 31 March 2019, and to a number of debt counterparties including other local authorities in respect of short-term borrowings at 31 March 2019. This permission was granted and the requests were sent.<br>• The majority of these requests were returned with positive confirmation, however where responses were not received we undertook alternative procedures, including review of alternative evidence such as broker's certificates and transaction statements around year-end. |
| 6 | **Disclosures** | • Our review identified a number of disclosure amendments to be made to the draft financial statements. See appendix B for details. |
| 7 | **Audit evidence and explanations/significant difficulties** | • All information and explanations requested from management have been provided, however some of the items requested during our interim audit in February/March were not provided until our final audit visit in June/July.<br>• The Council's accounts production team has changed significantly for 2018/19 with a number of key individuals leaving the team. This has resulted in a slower audit process than in previous years, with more areas of the audit outstanding at the report-drafting stage than in previous years. We have been reporting our list of outstanding items daily to management, who are also able to monitor their delivery on the secure online portal used to share information for the audit.<br>Management and the Audit & Governance Committee should continue to ensure that they appropriately resource the financial accounting function of the Council to ensure that high-quality financial statements can be produced prior to the external audit, and that experienced staff are available to support the external audit throughout June and July. |

# Other responsibilities under the Code

| | Issue | Commentary |
|---|---|---|
| 1 | **Other information** | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix C. |
| 2 | **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>We have nothing to report on these matters. |
| 3 | **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting thresholds of £500m (assets, liabilities, income, and expenditure) we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>This work has not been completed and will be completed in August 2019 following conclusion of our external audit. This timeline for completion is consistent with previous years. |
| 4 | **Certification of the closure of the audit** | We are unable to certify the closure of the 2018/19 audit of Surrey County Council in the audit opinion, as detailed in Appendix C.<br>We have completed the majority of work under the Code but are unable to formally issue our completion certificate until we have completed the work necessary to issue our Whole of Government Accounts assurance statement and out consistent with opinion in relation to the Pension Fund Annual Report. |

# Value for Money

## Background to our VFM approach

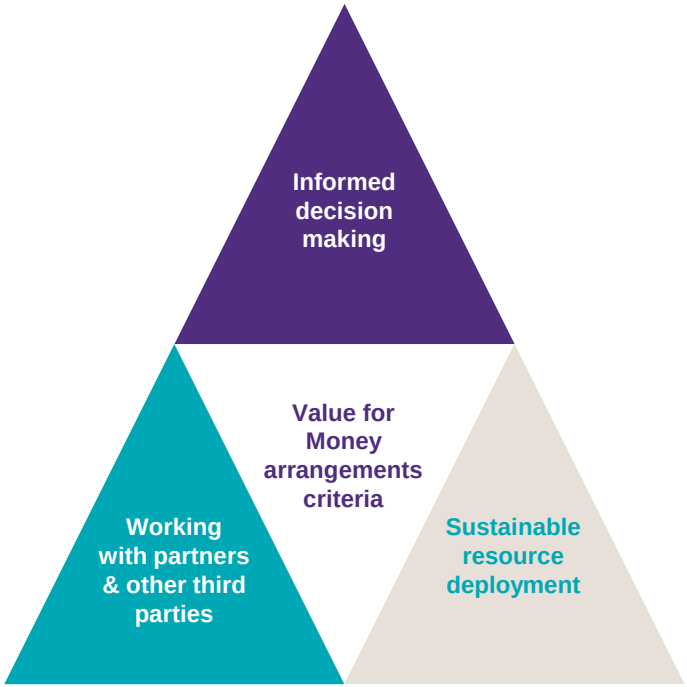
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:






## Risk assessment

We carried out an initial risk assessment in March 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 8 April 2019.

We have continued our review of relevant documents up to the date of giving our report, and identified a significant risk in relation to the completion of the energy from waste facility at the Eco Park, developed as part of the Council's Waste PFI project.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

The three significant risks we have addressed as part of our work are as follows:

1 Childrens Services

2 Financial Health

3 Eco Park – Waste PFI

# Value for Money – Childrens Services

## Overview

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up inspection report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".



## 2018/19 Monitoring visits

Following the 2018 inspection report the Council had two monitoring visits from inspectors in September 2018 and January 2019.

In September 2018 the inspectors found that too many children were removed from child protection plans before there was substantial evidence that the risks they were facing had reduced or their circumstances had improved. Inspectors found that many social workers, frontline managers, child protection conference chairs and partner agencies had insufficient knowledge and understanding of the impact of cumulative neglect, exposure to domestic abuse and other adult difficulties on children.

Inspectors reported that a new, highly experienced senior management team, formed since the inspection, understood the scale of poor practice and outcomes for these highly vulnerable children. A systemic review of the practice system and service structure was in progress.

It was rightly recognised that measures to achieve wide scale practice improvements will take time to implement, and senior leaders advised inspectors that the standard of interventions and outcomes for children considered during the visit was unlikely to have significantly changed since the inspection.

The findings of the second monitoring visit to Surrey's children's services on 23 and 24 January 2019 were that the experiences and progress of children in care and achieving permanence were judged requires improvement to be good. Overall, the effectiveness and timeliness of permanence planning for children who are unable to live with their parents had improved since the inspection. The understanding of permanence planning by social workers and the progress tracking of these plans by managers requires further strengthening. The Authority is implementing credible initiatives to consolidate the improvements that have been made.

However, overall, and in accordance with the Authority's own analysis, inspectors found continuing weaknesses and inconsistencies in services for children in care.

## Conclusion

Overall during 2018/19 there remains evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

# Value for Money – Financial Resilience

## Overview

In November 2018 we provided a report to the Council on Review of financial Health Arrangements. This review summarised the additional work we undertook to support our delayed VfM conclusion for 2017/18, specifically in regard to the Council's financial health. The review considered the significant financial challenges facing the Council and the implications for financial sustainability in the short to medium term.

As noted in that report, the Council has taken robust steps to address the significant financial challenge that it faces. The Council's new senior management team acted promptly and effectively to strengthen arrangements to manage and deliver the planned savings. However, at the time of review further work was underway to develop savings and transformation plans to full business case stage so they could be implemented. We indicated that it would be important to track progress on delivering these over the medium term.



For the 2018/19 VfM conclusion, we have reviewed the progress made towards restoring financial sustainability since November 2018. We found that significant progress has been made and financial resilience has been improved, but there remains significant further work to do to achieve a sustainable financial position.

## Financial performance 2018/19

The Council performed well in delivering it's ambitious 2018/19 budget and savings targets. This is an important marker of the Council's ability to implement deliver its financial recovery plans. The outturn included better than expected performance on the £40m additional saving requirement that was implemented part way through the year. This led to a £0.5m contribution to reserves compared to a £21.3m drawdown that had been originally planned in the MTFS. The initiative has been successful in protecting reserves that can now be used as a buffer against financial risk in future years.

Within this position, net underspends against budget of £47.5 were able to compensate for a £19m overspend on Special Educational Needs and Disability services which remains an area of significant challenge for the Council. The position was also supported by the use of £14.4m of capital receipts from the sale of Council assets which were used to fund transformation, making use of government guidance issued in 2016.

The financial outturn included the delivery of £66m of MTFP savings which together with the additional £40m, resulted in a £106m reduction in net Council spending in 2018/19. We note that this included £6m of non-recurrent savings that will need to be backfilled on a permanent basis in 2019/20. This should be recognised as a significant achievement and provides some assurance that the new financial improvement process is capable of delivering ambitious targets.

The financial outturn was due in large part to an improvement in control of demand pressures in Adult Social Care, including through exercising greater discipline on access to services and the cost of care packages. Note that, these demand management initiatives were in addition to the revised savings programme and provided the justification reducing the projected funding gap for 2019/20 to £82m from the £136m that had originally been projected.

## Financial planning (MTFP) 2019/20 to 2023/24

The Council's MTFS published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute and it will be important that the momentum gained in 2018/19 is maintained. We will continue to monitor progress against savings target for 2019/20.

# Value for Money – Financial Resilience

### Strengthening financial governance

A new governance structure is being established to support transformation in the first few months of 2019/20. The Council has set up a TSU (Transformation Support Unit) that provides the functions of a PMO and the newly appointed Transformation Director is in post to provide strategic leadership. The TSU organises monthly reporting of progress on savings to the Transformation Delivery Board, which includes Corporate Leadership Team members. This process then feeds into the Change Management Board, which includes Cabinet members. The form of reporting is evolving as the work of the TSU embeds.

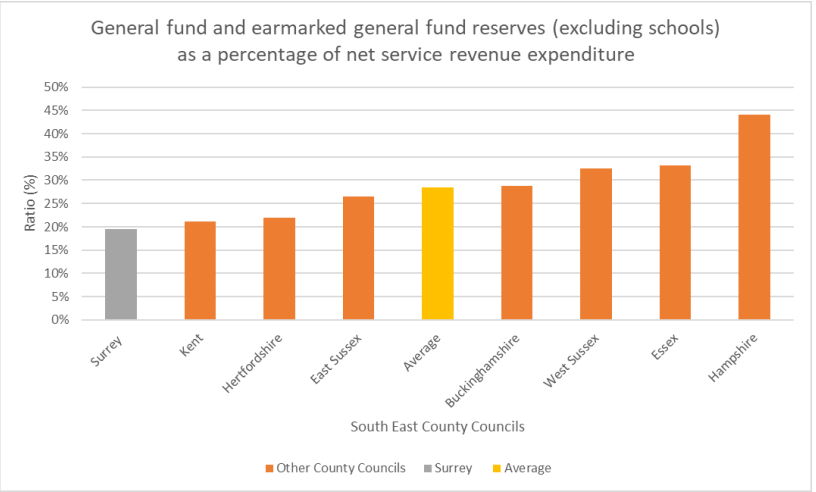
Financial management has also been strengthened through restructuring in the finance department. Finance Managers moving to a full business partner role and additional training is being laid on for members and budget holders, during 2019/20.

The final business cases (FBC) for savings and income proposals to address the £82m savings requirement for 2019/20 were signed off in November 2018. However, the Council has been updating them, including improved clarity on what each FBC is achieving and what has been delivered to date. For example, the phasing on the libraries FBC has changed since the original FBC was signed off, so the phasing and value of benefits needed to be reviewed. The higher level of challenge and scrutiny that the FBCs are now subject to is an indication of the strengthened procedures.

### Reserves and contingencies

The Council's reserves provide a temporary buffer against financial risk, for example if savings could not be delivered to target in line with the MTFS projections.

As a result of the delivery of additional savings in year, the Council's reserves position is significantly better than had been originally projected. However, as at 31 March 2019, Surrey continues to hold a comparatively low level of reserves compared to other county councils in the South of England.




The revised MTFS 2019/24 sets out a balanced budget for 2019/20, without the general use of reserves and assumes that the achievement of savings targets will avoid the need to subsidise revenue from reserves in future years. The Council have also established a £10m budgeted contingency for 2019/20, as a further means of protecting reserves.

### Conclusion

The Council has delivered a strong financial performance in 2018/19 and has started the implementation of its transformation plans, which will put it in a sustainable financial position for the future. However as at 31 March 2019 they remain to be delivered. Further delivery of the transformation plans will be needed to demonstrate proper arrangements for securing sustainable resource deployment.

# Value for Money – Financial Resilience

### Progress on Recommendations

In our report to the in November 2018, we included a number of high level recommendations which would help us to monitor the Council's progress in delivering financial sustainability. Overall progress against these has been promising and we will continue to monitor these during 2019/20. In most cases, the new processes need time to embed before their effectiveness can be fully assessed.

| Recommendation | GT assessment of progress | GT Comment |
|---|---|---|
| Embed the new programme and project management arrangements and provide close support and scrutiny over the activity of service directors and budget holders on an ongoing basis. | **On track** | The new TSU and accompanying governance arrangements continue to embed but should provide a stronger platform for financial governance. |
| Monitor progress against planned savings on a regular basis, at least monthly recognising that in some circumstance, weekly updates may be required at critical stages. | **On track** | Monthly reporting to the Transformation Steering Board is part of the new governance arrangements. |
| Ensure that the Council has the capacity and skills to manage the change and bring in additional external support as required. | **On track** | The council has restructured its finance team and has used external support to strengthen its Turnaround capability. |
| Embed a culture of ownership of financial management across the organisation. | **On track** | Additional training for budget holders and members, and the transfer of finance managers into a business partnering role should help embed a strong culture. The Council have also introduced budget accountability statements for budget managers, and an agreed partnership protocol to support finance business partnering. |
| Ensure that the impact of transformational changes to services is fully understood and analysed in terms of benefits and risks to communities. | **On track** | The impact on service outcomes is part of the business case development process and the intention is to monitor this alongside the realisation of benefits. |
| Make sure that efforts to expedite and implement aspects of transformation prior to the full business cases being finalised, do not risk overlap or conflict with the overall transformation programme. | **On track** | While the FBCs continue to be finessed and updated, work had been undertaken to eliminate duplication and understand the interdependencies. |
| While the Council has identified an additional £40m of savings in 2018/19 to reduce the use of reserves, it should consider whether a pipeline of additional plans can be developed to mitigate risks which may arise during the implementation of the transformation programme | **Complete** | The £40m additional savings was successfully delivered. |

# Value for Money – Eco Park

## Overview

The Councils Waste PFI project (the Project) originally reached financial close in 1999. The Project involved the Operator designing, building, financing and operating newly created assets in the form of two energy from waste plants ("EFW"); four in vessel composters ("IVC"); and one civic amenity site ("CA"). The cost of the capital for the Project was estimated at around £250million, for which the Council had obtained HM Treasury PFI credits of approximately £80million.

## Eco Park Development

After the 1999 financial close, the Operator was unsuccessful in obtaining the necessary planning permission to build the new EFWs. As a result the Operator and the Council entered a stage of arbitration and the Project was delayed, though waste disposal activities continued.

In October 2013 the Council signed a deed of variation to the Project to deliver and Eco Park solution comprising a Gasification facility and an Anaerobic Digestor facility. Following receipt of revised costs in January and February 2015 the Council updated its VfM analysis for presentation to the Cabinet in April 2015. Throughout the period there were regular reports to Committee setting out the progress made or explaining the delays encountered. The Council has been advised throughout the process by its financial advisors, Deloitte LLP, technical advisors, Mott Macdonald LLP and legal advisors.

## Value for Money Assessment

The value for money analysis undertaken by the Council in October 2013 considered both the quantitative and qualitative aspects of proceeding with the contract variation for the development for the Eco Park. Taking into account significant legislative, strategic, contractual and economic factors it was considered that the delivery of the Council's Waste Strategy through the development of the Eco Park represented the best overall value to the public.

Following delays the Council updated its VfM assessment in April 2015. This assessment confirmed the earlier assessment that the development of the Eco Park remained the best value solution for the public.

## Current Position

Construction of the Eco Park, while progressing, is delayed. To date the Council has recognised payments totalling £87m as an asset under construction on the Balance Sheet. Under the terms of the Council's waste contract with Suez, the Council does not start to pay in full for the Eco Park until the facility is operational.

The Gasification facility was due to be operational by 7 November 2017 and so is significantly delayed. The facility has to pass acceptance testing to ensure the facility is working to the agreed standard. The Gasification Facility is due to undergo hot commissioning within the next two months, which will determine whether the plant is able to meet the agreed acceptance tests.

The Council is paying a reduced unitary payment at present recognising that the facility is not available to use. The PFI provider is currently disposing of the waste in one of its other energy from waste facilities. The financial risks to the Council from the contract appear to have been managed, provided the facility is completed and functions as intended.

## Conclusion

Our work in respect of this risk is not yet complete.

# Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, and managers). In this context, we disclose the following to you:

- Marcus Ward was the audit manager for Surrey County Council up until May 2019. In May 2019, Marcus' father was appointed Leader of Waverley Borough Council. As discussed and agreed with PSAA, Grant Thornton UK LLP rotated Marcus Ward off the audit of Surrey County Council prior to the commencement of the final accounts audit of Surrey County Council in order to mitigate against any perceived or actual threat to the independence of the audit team as regards the financial statements of Surrey County Council for the year ended 31 March 2019.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.



## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | £ | Threats | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of Teacher's Pensions return | 4,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £109,415 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Teacher's Pension return – Surrey Choices Limited | 3,500 | 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 £3,500 in comparison to the total fee for the audit of £109,415 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| **Non-audit related** | | | |
| CFO Insights subscription | 12,500 | None | None |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|---|
| 1 | **Provisions for business rate appeals are understated:** Due to an error in Elmbridge's NNDR3 return, the NNDR rateable value appeals provision is understated for this authority by £2.8m. | 2,840 | (2,840) | 2,840 |
| 2 | **Accounting for DSG overspend is incorrect:** The entity has raised a debtor and corresponding reserve for DSG overspend of £18.7m. This accounting treatment is incorrect and the impact should be offset against schools balances. | - | 18,675 reclassification | - |
| 3 | **Impact of McCloud and GMP Equalisation: Firefighters' Pension Fund** | 21,800 | (24,600) | 24,600 |
| 4 | **Impact of McCloud and GMP Equalisation: LGPS** This adjustment also takes into account movements in actual return on scheme assts compared to the estimated value in the previous actuary's report. | 10,516 | (33,731) | 33,731 |
| 5 | **Understatement of Collection Fund Debtors in respect of Surrey Districts** | (5,253) | 5,253 | (5,253) |
| | **Overall impact** | **29,903** | **(55,918)** | **55,918** |

## Misclassification and disclosure changes

The table below provides details of major misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. A number of minor disclosure amendments have also been recommended but are not set out here on the basis of immateriality.

| Disclosure omission | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| **Capital Commitments** | The Council has a number of material capital commitments which should be disclosed in the accounts under the code (ref 4.1.4.3(2)). | • Management should consider adding an additional note to the financial statements for Capital Commitments . | ✓ |
| **IAS 7 Cash Flow Disclosures** | The Council should disclose a reconciliation of Cash Flows from Financing Activities under IAS 7/ the code (ref 3.4.2.83 (2)). | • Management should consider adding an additional disclosure to the cash flow statement notes to the financial statements. | ✓ |
| **Allowance for Credit Losses** | The financial instruments disclosure for Allowance for Credit Losses omitted to include the £24m allowance for doubtful debts. | • Management should amend the relevant financial instruments disclosure. | ✓ |

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

| | Proposed fee (£) | Final fee (£) |
|---|---|---|
| **Surrey County Council Audit** | 109,415 | 119,415 |
| **Total audit fees (excluding VAT)** | **£109,415** | **£119,415** |

Note: The above fee table does not include fees for Surrey County Council Pension Fund and the subsidiary companies as these are not covered by the contents of this Audit Findings Report.

The above variations in the Council's audit fee are as a result of the following:

- Additional work performed by the audit team in respect of valuation of land and buildings assets, including engagement of an external valuer by the audit team: £5,000
- Additional work performed by the external audit team in respect of the IAS 19 Pensions Liabilities including the impact of McCloud ad GMP equalisation: £3,000
- Additional work performed by the external audit team in respect of the Eco Park PFI scheme asset: £2,000

The above fee variations have been discussed with management. All fees are quoted excluding VAT. Fees are subject to agreement with PSAA.

## Non Audit Fees

| Service | Final fee (£) |
|---|---|
| **Audit related** | |
| Certification of Teacher's Pensions return | 4,000 |
| Certification of Teacher's Pension return – Surrey Choices Limited | 3,500 |
| **Non-audit related** | |
| CFO Insights subscription | 12,500 |
| **Total group non audit fees (excluding VAT)** | **£20,000** |

# Audit opinion

**We anticipate we will provide the Group with an unmodified audit opinion.**

**Independent auditor's report to the members of Surrey County Council**
**Report on the Audit of the Financial Statements**
**Opinion**
We have audited the financial statements of Surrey County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.
In our opinion, the financial statements:
give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.
**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
**Conclusions relating to going concern**
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.
**Other information**
The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Authority and group financial statements and, our auditor's report thereon, and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on

# Audit opinion

the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

**Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:
we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion**.**
of the audit; or;
we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
We have nothing to report in respect of the above matters**.**

**Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Executive Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit & Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the

# Audit opinion

Authority's financial reporting process.

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

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

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

**Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Adverse conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

**Basis for adverse conclusion**

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Children's Services

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

The findings of the monitoring visit to Surrey's children's services on 23 and 24 January 2019 were that the experiences and progress of children in care and achieving permanence were judged requires improvement to be good. Overall, the effectiveness and timeliness of permanence planning for children who are unable to live with their parents had improved since the inspection. The understanding of permanence planning by social workers and the progress tracking of these plans by managers requires further strengthening. The Authority is implementing credible initiatives to consolidate the improvements that have been made.

However, overall, and in accordance with the Authority's own analysis, inspectors found continuing weaknesses and inconsistencies in services for children in care.

This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Sustainable resource deployment

The Authority engaged the Chartered Institute of Public Finance and

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Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function in early 2018. CIPFA reported in July 2018 that the Authority would not have sufficient reserves to meet its expected budget gap in 2019/20 unless it took immediate action to transform its financial performance and financial management arrangements. In response the Authority produced and implemented a two year financial improvement programme.

As at 31 March the Authority is halfway through the financial improvement programme which requires savings of c£200m to ensure its future financial viability. It has achieved savings of £106m made up of budgeted savings of £66m and an in year cost reductions of £40m. The savings achieved in 2018/19 has avoided the use of any reserves, which were budgeted to be £21.3m. The revenue outturn for the year represented an underspend against the original budget of £21.8m, resulting in a contribution to usable reserves of £0.5m. This is against the original forecast drawdown from reserves of £21.3m. This is an important step towards financial resilience and stabilisation of the Authority's financial outlook. Despite the favourable outcome for the year further financial challenges should not be underestimated. The Authority continues to face uncertainties arising from, the still to be announced, “Fair Funding Review” and the continuing rise in demand for its services while achieving the second tranche of savings in its two year programme of £82m in 2019/20.

The Authority’s Medium Term Financial Strategy published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute.

The Council has delivered a strong financial performance in 2018/19 and has started the implementation of its transformation plans, which will put it in a sustainable financial position for the future. However as at 31 March 2019 they remain to be delivered. Further delivery of the transformation plans will be needed to demonstrate proper arrangements for securing sustainable resource deployment.

**Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the

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the adequacy and effectiveness of these arrangements.

**Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements - Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ciaran T McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

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