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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

The Audit Findings for Surrey County Council and Surrey County Council Pension Fund

Year ended 31 March 2020

October 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audits of Surrey County Council ('the Council') and Surrey County Council Pension Fund ('the Pension Fund') and the preparation of the Group financial statements, as well as the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group, the Council and the Pension Fund. The Council has faced extensive front-line challenges as a result of the pandemic such as administration of grants to businesses, closure of schools and car parks with additional complexities of reopening services under new government guidelines. The Pension Fund have had to contend with risks in relation to the possibility of delayed contributions, volatile returns on investments, disruptions to administration of the Fund and prioritising the health and safety of staff and members. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addenda to management in 17 April 2020. This was shared with the Audit and Governance Committee in the papers for the meeting held on 22 May 2020. In the addenda (one for the Council and one for the Pension Fund) we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel have meant that Council and Pension Fund and audit staff have undertaken the accounts closedown and audit process remotely making use of remote access to financial systems and video conferencing, including screen sharing to verify information provided by the entity. The financial statements were published and provided to the audit team on 1 June 2020. We are grateful for the support and positive working relationships from the Council and Pension Fund finance teams towards the audit team as a result of remote working although, by its nature, remote working takes significantly longer than auditing on-site. We did however encounter some difficulties in obtaining documentation from departments outside of finance, particularly documentation relating to IT General Controls and receipt of information for pension administration tests, given the understandable prioritisation of the front-line Covid-19 response.

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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 financial statements, and the Pension Fund's financial statements: • give a true and fair view of the financial position of the group and Council, and Pension Fund, and the group and Council and Pension Fund's income and expenditure for the year; and • 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. 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 has been completed remotely during July-October. Our findings are summarised on pages 6 to 22. We have identified 2 adjustments to the Council financial statements that have resulted in a £68.4m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments, including unadjusted misstatements for both Council and Pension Fund, are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and other than emphasis of matter paragraphs mentioned below. there are no matters of which we are aware that would require modification of our audit opinions (separate items on the agenda) or material changes to the financial statements, subject to the outstanding matters outlined on page 6 of this report. We have concluded that the other information to be published with the financial is not inconsistent with our knowledge of your organisation. Our anticipated audit opinion for the Council will be unqualified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, investment properties and the net pension liability as at 31 March 2020. Our anticipated audit opinion for the Pension Fund will be unmodified. It will also include an Emphasis of Matter, highlighting material uncertainties around the valuation of pooled property investments and private equity investments as at 31 March 2020.

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Value for Money arrangements **(Council only)**	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. We have concluded that Surrey County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the failure to meet the required standards in the provision of children's services. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any further VfM risks in relation to Covid-19, moreover the enhancement of the existing significant risks that we had identified. We therefore anticipate issuing a qualified 'except for' value for money conclusion. Our findings are summarised on pages 23 to 30.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties, and have completed the majority of the work under the code. We expect to be able to certify the completion of the audits when we give our audit opinion, subject to being able to complete our work no the Whole of Government Accounts and the review of the Pension Fund Annual Report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 have been discussed with management.

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, Council, and Pension Fund's business, and is risk based, and in particular included:

- An evaluation of the group, Council and Pension Fund internal control environments, including IT systems and controls; and
- 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. From this evaluation we determined that an audit of Halsey Garton Property Limited was required, which was completed by UHY Hacker Young LLP and to whom we issued group audit instructions. We determined that analytical procedures were sufficient to gain assurance over other entities in the Group, namely Surrey Choices Limited and Hendeca Group.

We have altered our audit plan, as communicated to the Audit and Governance Committee in January 2020, to reflect our response to the Covid-19 pandemic and its impact on the Council and Pension Fund's financial statements and the Council's value for money arrangements. As reported to the Audit and Governance Committee in May 2020.

Conclusion

We have substantially completed our audit of the Council and Pension Fund's financial statements and, subject to outstanding queries being resolved, anticipate issuing unqualified audit opinions following the Audit and Governance Committee meeting on 1 October 2020, as detailed in Appendices E and F. These outstanding items include:

- resolution of outstanding queries relating to sample testing of non-pay operating expenditure, payroll, creditors, unrecorded liabilities and property, plant and equipment disposals and reclassifications;
- testing of a sample of pensioners within the Firefighter's Pension Fund;
- review of the cashflow statement;
- completion of audit work on financial instrument disclosures;
- completion of audit work on plant and equipment revaluations;
- completion of the IT general controls work;
- review of derivative valuations in the Pension Fund accounts;
- manager, engagement lead and review partner quality review of audit files and resolution of any arising queries;
- updating our review of events after the reporting date;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements.

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.

For the group and Council, materiality levels remain the same as reported in our audit plan. For the Pension Fund, we have reduced materiality levels to reflect the increased risk arising as a result of the reduction in the Fund's net assets from the 2018/19 position.

	Group Amount (£)	Council Amount (£)	Pension Fund Amount (£)
Materiality for the financial statements	26,000,000	25,800,000	38,500,000
Performance materiality	18,200,000	18,060,000	28,875,000
Trivial matters	1,300,000	1,290,000	1,925,000

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • working with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach and materiality levels. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 1 June 2020; • Liaising with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arise. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluating whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and the recovery of receivable balances; and the pension fund liability valuations ; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Council's property valuation specialists reported that valuations of land and buildings were subject to material valuation uncertainty as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, management have ascertained that pooled property investments within the Pension Fund financial statements (£280.4m), as well as private equity investments (£305.9m) are subject to material uncertainties on valuation on the same basis. This impacts upon both the valuation of these investments in the Pension Fund net assets statement, and the valuation of the net defined benefit liability in the Council's balance sheet. Management have agreed to disclose these uncertainties in Note 5 to the Council's financial statements and Note 5 to the Pension Fund financial statements. These disclosures will be referred to in our auditor's reports for the Council and Pension Fund respectively in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions. To date, no further issues have been identified which are required to be reported to those charged with governance. We will update this position to the date of issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted) 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.	Council and Pension Fund	In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Pension Fund, we had determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition; and • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Surrey County Council as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are seen as unacceptable. Therefore we did not consider this to be a significant risk for Surrey County Council, and Surrey County Council Pension Fund. Our assessment remains consistent with that reported in our audit plan.
Management override of controls Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. 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 Council and Fund, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluation of the design effectiveness of management controls over journals; • analysis of the journals listing and determine the criteria for selecting high risk unusual journals; • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluating the rationale for any changes in accounting policies or significant unusual transactions. Our audit procedures in this area are now complete. No issues have been identified which are required to be reported to those charged with governance.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of land and buildings The council re-values its land and buildings on an rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.14 billion PY) and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. 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.	Council	Audit procedures undertaken in response to the identified risk included: • review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • consideration of the competence, expertise and objectivity of any management experts used; • discussions with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • testing revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluating 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. Our audit procedures in this area remain in progress. As discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties, were subject to material valuation uncertainty as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management have agreed to disclose this uncertainty in Note 5 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. To date, no further issues have been identified which are required to be reported to those charged with governance. Should any issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of pension fund net liability 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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.19 billion PY) and the sensitivity of the estimate to changes in key assumptions. 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.	Council	Audit procedures undertaken in response to the identified risk included: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluate the instructions issued by managements to their management expert 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 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 Our audit procedures in this area remain in progress. As discussed under 'Covid-19' above, management have assessed that the Pension Fund's pooled property investments are subject to material valuation uncertainty as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As the majority of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. Management have agreed to include this uncertainty in Note 5 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. To date, no further issues have been identified which are required to be reported to those charged with governance. Should any issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of level 3 investments 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. We have identified the valuation of Level 3 investments as a risk requiring special audit consideration.	Pension Fund	Audit procedures undertaken in response to the identified risk included: • gaining an understanding of the Fund's process for valuing level 3 investments and evaluating the design of the associated controls; • reviewing the nature and basis of estimated values and considering what assurance management has over the year end valuations provided for these types of investments; and • for a sample of investments, testing 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. Reconciling those values to the values at 31 March 2020 with reference to known cash movements in the intervening period. Our audit procedures in this area are now complete. Management prepared the draft accounts based on cash adjusted movements from audited December valuations to the 31 March 2020 for private equity holdings where valuations had not been given at year-end; the total valuation in the draft accounts was £305.9m. Updated fund manager valuations for 31 March 2020 were obtained after management had prepared the draft accounts. The updated valuations represented a £13.8m decrease from the position reported, to £292.1m. Differences to management's estimate are due to unrealised losses that could not be predicted through the cash adjustment exercise. We challenged the 31 March 2020 valuations, which are un-audited, through reperformance of the Fund's cash adjustment exercise, finding a difference below performance materiality levels. Management have decided not to adjust the draft accounts given that the movement is not material. We have reported this as an unadjusted misstatement on page 41. Furthermore, given the complex nature of private equity valuations and the uncertainty within financial markets at the balance sheet date caused by Covid-19, management have agreed to include a disclosure to state that private equity valuations are subject to material valuation uncertainty. We will refer to the disclosure made by management in an emphasis of matter paragraph in the audit opinion.

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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
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	Management disclosed in Note 3a to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16 implementation. This disclosure also includes a statement that it is too early to give an accurate estimate but it is likely to have a material impact on the council's balance sheet. We reviewed management's process for compiling information about leases to ensure completeness and found these to be adequate. The statement that the impact of the revised accounting standard is expected to be material for the Council is reasonable in the context of the Council's material future operating lease commitments disclosed in the financial statements.	For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements.
Dedicated Schools Grant The Council had a cumulative overspend against the Dedicated Schools Grant (DSG) of £48.6m as 31 March 2020 due to an overspend on the High Needs Block. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."	We wrote to management on 27 May 2020 setting out Grant Thornton UK LLP's position on accounting for accumulated DSG deficits in light of CIPFA's Bulletin 05 on closure of the 2019/20 accounts. In our response to the DfE's consultation we disagreed that changing the conditions of the grant would be sufficient in isolation to achieve the Government's intention to require overspends to be carried forward and not charged against general reserves, as this would be at odds with the requirements of proper accounting practice and the Code. Management have created an earmarked reserve from revenue resources to offset the cumulative overspend.	Management's approach is acceptable and we await further information for the Department for Education on the longer term approach to this issue.

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Significant findings – key estimates and judgements – Group / Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other – £1,226m	Other land and buildings comprises £389.7m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£836.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2020, on a five yearly cyclical basis. 21.57% of total assets were revalued during 2019/20. With regard to assets not formally revalued at the balance sheet date within the rolling programme, the council has consulted with its valuers and has determined that whilst there have been inflationary pressures in the market that would increase the value of assets valued at DRC, such as schools, these increases would be mitigated by deprecation to the asset over the relevant period. This means that the values are unlikely to be materially different at the balance sheet date. All valuations have been made in light of the impact of Covid-19 and is the best estimate of the valuers at the time of valuation. In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council agreed to include a disclosure in Note 5 to the financial statements to reference the uncertainty. The total year end valuation of land and buildings was £1,226m, a net increase of £81.5m from 2018/19 (£1,144m). This net increase arises from the valuation process in combination with additions, enhancements, disposals and completions of buildings during the year.	• From the work performed to date, no material issues have arisen in relation to the valuation of the Council's operational land and buildings included within the accounts • We have assessed management's expert, Bruton Knowles, to be competent capable and objective • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements • Valuation methodologies applied are consistent with those applied in the prior year. • We have challenged management's assessment that those assets not valued at the balance sheet date are not materially misstated to produce a paper setting out their rationale, which we will assess. • Appointed an auditor's expert, Gerald Eve, to review the valuation of the Eco Park asset under construction prepared by the Council's own valuation specialist. For more information on the Eco Park asset, refer to page 18.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentiallymaterially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe 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

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Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,642m	The Council's total net pension liability at 31 March 2020 is £1,642m (PY £1,928m) comprising defined benefit obligations relating to Surrey County Council Pension Fund and the Firefighters' Pension scheme. The Council uses Hymans Robertson to provide actuarial valuations of the assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. This has led to material experience liabilities arising during 2019/20 as assumptions used were normalised for actual data. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £258m net actuarial loss during 2019/20.	• We have assessed the actuary, Hyman's Robertson, to be competent, capable and objective; • We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2019/20 calculation carried out by the actuary; • We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions for Surrey County Council Pension Fund: • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate; • We have confirmed there were no significant changes in 2019/20 to the valuation method. • Our work confirms that the decrease in the IAS 19 estimate is reasonable.	●

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	1.9%	1.8% - 2.0%	●
Salary growth	2.8%	1.8% - 2.9% (CPI – RPI)	●
Life expectancy – Males currently aged 45 / 65	**45:** 22.9 **65:** 22.1	**45:** 21.6 – 23.3 **65:** 20.5 – 22.2	●
Life expectancy – Females currently aged 45 / 65	**45:** 25.7 **65:** 24.3	**45:** 24.6 – 26.3 **65:** 22.9 – 24.3	●

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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

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Significant findings – key estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2020 at £305.9m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. Valuations are based on forward looking estimates by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. Management prepared the draft accounts based on cash adjusted movements from audited December valuations to the 31 March 2020 for private equity holdings where valuations had not been given at year-end The value of unquoted private equities at 31 March 2020 was £305.9 million (£256 million at 31 March 2019).The value of the investment has increased by £49.9m due to net purchases of £22.2m and an increase in the market value of the underlying assets on valuation of £27.7m.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2019; • We have assessed the consistency of the estimate against peers and industry practice; • We have reviewed the reasonableness of the increase in the estimate; and • We have assessed the adequacy of disclosure of estimate in the financial statements As discussed on page 11, updated fund manager valuations for 31 March 2020 resulted in a £13.8m decrease in valuation from the position reported in the accounts. We challenged the 31 March 2020 valuations, which are un-audited, through reperformance of the Fund's cash adjustment exercise, finding a difference below performance materiality levels. Differences to management's estimate are due to unrealised losses that could not be predicted through the cash adjustment exercise; we assess that management's exercise was reasonable.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentiallymaterially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe 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

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Significant findings – key estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2 investments	The Pension Fund have investments in derivatives, indexed–linked securities, pooled equity and pooled property funds that in total are valued on the net asset statement as at 31 March 2020 at £1,686m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use the valuations provided by investment managers. Management have assessed that material estimation uncertainty is present in the valuation of pooled property investments (£280.4m), given that underlying valuations of property within the portfolio are subject to valuation uncertainties in the market arising from the Covid-19 pandemic at 31 March 2020.	• We have assessed the appropriateness of the underlying information used to determine the estimate; • We have assessed the consistency of the estimate against peers and industry practice; • We have reviewed the reasonableness of the increase in the estimate; • We have assessed the valuation of derivative investments, which are material to the Fund on a gross liability basis, using Hedgebook software. The work currently remains in progress; • The majority of the Fund's pooled property investment valuations were provided as at December 2019 by the fund manager, and were not updated to 31 March 2020 in the draft financial statements. This is because more updated valuations were not available to management at the time, in part due to covid-19. Updated valuations for 31 March 2020 were since received, indicating that pooled property is overstated by £2.3m in the accounts. Management have decided not to adjust the draft accounts given that the movement is not material. We have reported this as an unadjusted misstatement above triviality on page 41. • We have assessed the adequacy of disclosure of estimate in the financial statements. Management have updated the financial statements to reference the material estimation uncertainty with respect to pooled property investments caused by covid-19. Our audit opinion will include an emphasis of matter paragraph and will reference the updated uncertainty disclosure made my management.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentiallymaterially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe 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

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Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Minimum Revenue Provision The Council's minimum revenue provision ('MRP') policy deviates from the requirements of the Statutory Guidance in two areas	The two areas of deviation in the policy are as follows: **1. Loans to other bodies** The Council's policy follows that where loans are made to other bodies for their capital purposes, and are to be repaid under separate arrangements, no MRP will be charged on those loans. The capital receipts generated by the repayment of those loans will be set aside to repay the debt. The Council's view is that, if they were to provide MRP on these loans, then any loan repayment accounted for as a capital receipt would be available to spend on future capital expenditure. However, if the Council were to ringfence loan repayments for the repayment of the related Capital Financing Requirement, then to also charge MRP would result in an over-provision. **2. Equity Investments** The council determines MRP on equity investments based a 20 year life. However, for equity investments in asset backed companies, a 50 year life is assumed to match the Council's policy for investment assets. The Council's view is that, given the majority of the Council's shareholdings relate to Halsey Garton (an equity investment in a company backed by significant property assets), the MRP policy should match the calculation for these particular shareholdings to that taken for Surrey-owned investment properties – that is, to be charged over 50 years, using an annuity methodology.	The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require a local authority to make a revenue provision for the repayment of debt "which it [the local authority] considers to be prudent" and to "have regard" to the statutory guidance. With respect to charging MRP on loans, we would expect the repayment period to be based on the useful life of the assets on which third party expenditure is incurred. The Council's policy therefore results in MRP being lower than what the guidance suggests. Concern could be raised Council's ability to refinance or repay its related £234m loans (mainly with PWLB) when they mature – predominantly in the period 2050 to 2065. However, the Council is confident of its ability to re-finance them. In the context of the Council's loans to Halsey Garton, the counterparty's ability to repay the debt can be judged by comparing the value of assets and retained earnings to the level of outstanding debt. At 31st March 2020, Halsey Garton's investment properties held a carrying value approximately of £269m, some £35m more than the outstanding debt of £234m. In addition, Halsey Garton holds a Profit and Loss Reserve of £4.8m. This demonstrates that the company holds assets of sufficient value that (if sold) could repay the outstanding debt. Halsey Garton's properties have been revalued downwards by £27m in 2019/20. This reduction in value is held in a fair value reserve and does not represent a permanent impairment. The £269m asset value already accounts for a £60m reduction over the previous two years. Given that this is not currently a permanent impairment, the underlying value of the assets is £329m. Based on the above, while we believe the Council's policy to be imprudent, we are satisfied that it is not unlawful. An added degree of uncertainty surrounding repayments exists in the current economic climate so the policy is risky. We have made recommendations on page 34 regarding the policy.

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Significant findings – matters discussed with management (continued)

Significant matter	Commentary	Auditor view
Eco Park valuation	The draft financial statements included assets under construction of £71.3m for the Eco Park as at 31 March 2020. The assets under constructions consists of a gasifier held at £42.3m, part of the larger waste PFI contract. The delivery of the Eco Park scheme remains significantly delayed. We challenged the Council to prove that the assets under construction (AUC) were not materially misstated and requested the Council carry out an impairment review. We also challenged them to confirm whether it was probable that an asset will pass to the them at the end of the contract, and that they will get economic benefit from. Management engaged Mott Macdonald to prepare a valuation of the Eco Park AUC based on an assessment of the cost to replace the service potential. The valuation provided costs to replace the service potential of the gasifier and other assets within the Eco Park, giving the Council assurance that, assuming the Eco Park is adopted at full capacity, the carrying value is not materially misstated. The Council has been working closely with it's technical, legal and financial advisors to monitor and manage the delivery of the Eco Park and has recently concluded that it is improbable that future economic benefit will flow to them from the facility, and as such it is not probable that an asset would not be brought into use. The Council has therefore updated the accounts to derecognise this AUC.	We have considered the accounting treatment for the Eco Park assets under construction against the requirements of the CIPFA Code We have challenged management to prove that the assets under construction were not materially misstated as at 31 March 2020. Reviewed reports to the Waste Advisory Board on progress with the delivery of the Eco Park assets. Reviewed the assessment of costs to replace the service potential for the assets under construction provided by the Council's technical advisors We have appointed and auditors expert to review the work carried out by Mott Macdonald to assess the approach adopted by them. We have met with the Executive Director of Resources and the Executive Director of Environment, Transport and Infrastructure to understand the Council's position in relation to the development of the Eco Park and the ongoing contract management. We have reviewed the Council's revised accounting treatment for the Eco Park assets under construction and sought evidence of advice from the Council's technical advisers to support the position. Our work in this areas is not yet complete.
Transfer from surplus assets to investment properties.	A transfer of £10,903k was made between surplus assets and investment properties in 2019/20. This was the result of an exercise through which the Council re-assessed the portfolio and determined that a number of surplus assets had changed use and were now being held solely for rent or capital appreciation – therefore, investment properties under the Code. Upon audit challenge, management deemed that while it was not an in-year change of use, the use had changed.	The exercise carried out by management identified that a change in intention for the assets happened in prior years, and did not happen this financial year. Given audit materiality levels, no prior period adjustments are required. Given that the assets are now held as investment properties (a separate asset class under the Code), it was deemed appropriate for them to be classified as such in the balance sheet, and no adjustment to the accounts is required.

Going concern – Group and Council

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

The Council's financial statements have been prepared on a going concern basis, as disclosed in Note 2.

Management provided a narrative going concern assessment and Medium Term Financial Strategy extending to 2024. Management's assessment refers to paragraph 2.1.2.9 of the Code, which states that "*an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".* Management's assertion is that if the Council was in financial difficulty, alternative arrangements would be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year, as has been borne out in recent years. Management acknowledge that the financial outlook for the Council is challenging, with a significant level of savings required to produce a balanced budget in future years.

Work performed / commentary

In 2019/20 the Council delivered a balanced budget enabling a significant contribution to reserves, arising from an overall directorate surplus of £5.3m and an unused budgeted contingency of £8.9m. The Council included £82m of efficiency proposals in the annual budget for 2019/20, of which £72m (88%) were reported as achieved. Given the overall scale of savings required in the medium term, as flagged by management in their Going Concern assessment, past performance bodes well for the delivery of the ambitious programme. Indeed, the Medium Term Financial Strategy identifies a cumulative funding gap of £162.3m by 2024/25. To close this gap, additional efficiencies of c.£40m per year would need to be identified and delivered. The Council is currently working on reviewing and updating its MTFS in light of Covid-19.

In consideration of the next 12 months, the County has sufficient reserves, cash balances, short term investments and headroom for short term borrowing to address going concern issues. Operating cashflows are all positive whilst the budget for the next three years indicates positive cashflows. Furthermore, the Council has sufficient headroom in terms of availability of short term borrowing; the Council's treasury management strategy involves a number of short-term investments in other authorities to maximise useable cash reserves as well as investments in money markets for excess cash.

We have also reviewed the audited accounts for the Council's subsidiary companies and are satisfied that the auditors have not raised any material uncertainties in respect of their financial performance or position as at 31 March 2020. Valuation of the assets held by Halsey Garton is higher than the Council's current financial commitment to the company.

We are satisfied that management's assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. We are satisfied that the Council holds sufficient useable reserves to mitigate the risk of any short-term funding shortfalls which may arise throughout the period of management's assessment.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Going concern – Pension Fund

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

The Pension Fund's financial statements have been prepared on the going concern basis. As disclosed in Note 2 to the financial statements:

The accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

The CIPFA Code requires that the Pension Fund's financial statements be prepared on a going concern basis, with paragraph 2.1.2.29 stating:

an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Management provided a written going concern assessment and supporting cash flow forecast, covering the period to March 2022.

Work performed

We reviewed management's disclosures and going concern assessment, corroborating key inputs to our wider knowledge and supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment. None were identified.

We are satisfied that management's assessment is based on accurate information including assessments over funding levels provided by the Fund's actuary. In the most recent triennial valuation, the actuary has assessed that the Fund is 117% funded on their most likely future scenario.

There is no plan by the Ministry of Housing, Communities and Local Government to wind up the Surrey County Council Pension Fund; the Fund continues to receive contributions and investment income as expected.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Pension Fund financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Pension Fund's ability to continue as a going concern
- the disclosures in the Pension Fund financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

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Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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 incidences from our audit work.
Written representations	Letters of representation have been requested from the Group and Council, and from the Pension Fund, which are appended. Specific representations have been requested from management in respect of the significant assumptions used in their accounting treatment for Eco Park, and the policy for the Minimum Revenue Provision.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent. Requests have been returned with positive confirmation. We are still awaiting a response to the school's bank letter. We sent letters to those solicitors who worked with the Group and Council, and Pension Fund during the year and responses were received.
Disclosures	Our review of disclosures found no material omissions in the financial statements of either the Group or Pension Fund. The changes made to disclosures during the course of the audit are summarised in Appendix C.
Audit evidence and explanations/significant difficulties	Delays were incurred in obtaining information from the Council's IT team, with the result that at the time of writing, our audit work around IT General Controls, remains into be completed.

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Other responsibilities under the Code

Issue	Commentary
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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
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. As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. At the time of writing, the group instructions have yet to be issued by the NAO, with these due to be communicated to group auditors later in 2020. These procedures will be completed alongside the issue of our auditor's report.
Certification of the closure of the audit	Subject to the completion of WGA work and our review of the Pension Fund Annual Report, we intend to certify the closure of the 2019/20 audit of Surrey County Council and Surrey County Council Pension Fund in the audit report, as detailed in the separate item to the Committee.

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Value for Money

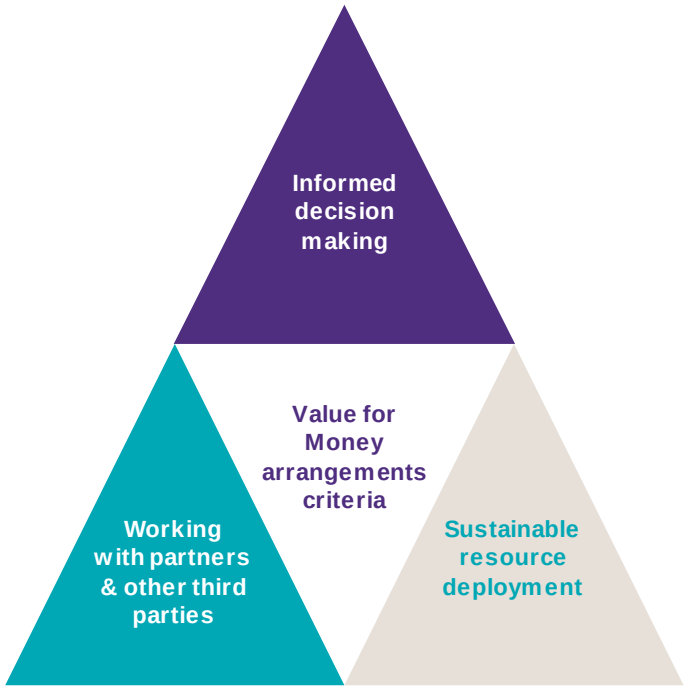
Background to our VFM approach

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 April 2020. 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 January to March 2020 and identified a number of 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 29 January 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We did not identified any new VfM risks in relation to Covid-19; however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability as part of our work in addressing the previously identified significant VfM risks.

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.

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Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years
- Medium term financial plan;
- Ofsted inspection reports;
- Council and Committee reports; and
- Discussions with key officers around the Eco Park

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 25 to 30

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that, except for the matter we identified in respect of children's services, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We therefore propose to give a qualified 'except for' conclusion the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found in a separate agenda item to the Committee.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

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Value for Money – Financial Resilience

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. In 2017/18 we reported that the Council was carrying an underlying deficit and it would not be able to continue to use reserves to supplements the cost of services in the medium term. However, we noted that in September 2018, a wide ranging Finance Improvement Plan (FIP) had been put in place to improve the Council's finances and develop the finance function. This led to significant improvements in the financial position that we reported on in our VfM conclusion for 2018/19.

The Finance Improvement Plan (FIP) has now been completed enabling the Council to plan for a sustainable medium term financial position. In 2019/20, the Council delivered in line with its planned budget and made a net contribution to reserves. COVID-19 has put additional pressure on the Council from 2020/21 onwards. While the council should now be well equipped to manage the financial pressures arising in 2020/21, significant challenges lie ahead with particular uncertainty around the impact on council tax and business rates in future years.

Financial performance 2019/20

During the financial year 2019/20 the Council delivered a balanced budget enabling a significant contribution to reserves, arising from an overall directorate surplus of £5.3m and an unused budgeted contingency of £8.9m.

We note that within this position the Children, Families, Lifelong Learning & Culture (CFLC) Directorate, reported a net overspend of £2.7m for the year. Which was mitigated by underspends on other service budgets. The key driver of the overspend was Special Educational Needs (SEN) transport and other children's transport services due to higher than expected demand. We note that a review of the service identified some mitigating actions but was not successful in wholly mitigating the pressure. **The Council should continue to monitor and consider ways to mitigate demand in SEN transport and ensure that the measures taken to deal with this in the 2020/21 budget are adequate, once the service returns to normality following the recent school closures.**

The SEND deficit

The Council carried forward a liability of £30.0m on the Special Educational Needs and Disabilities (SEND) budget relating to an ongoing overspending on activity funded by the Dedicated Schools Grant (DSG) - High Needs Block. This was driven by an increase in the number of Non-Maintained Independent (NMI) placements outstripping the available funding. This is a sector wide issue for top tier councils. **Until the current dialogue on SEND funding with the Department for Education is concluded, there remains a risk that the Council will be required cover this liability from general resources which could pose a significant threat to financial resilience. The Council will need to continue to manage the risk within its existing resources.**

Delivery of savings

The Council included £82m of efficiency proposals in the annual budget for 2019/20 which was approved by Council in February 2019. We noted that £72m (88%) was reported as achieved. The £10m of non-delivered savings was made up of a combination of project delays, decisions taken not to pursue savings, specific savings not identified, and savings shortfalls against original targets. The shortfall was offset by alternative one-off measures in year, with the recurrent impact rolled forward into the updated Medium Term Financial Strategy (MTFS). Given the overall scale of savings to be delivered, this reflects effective management and delivery of savings plans.

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Value for Money – Financial Resilience (continued…)

Capital budget

The capital Programme spend for the year was £117.2m against a budged of £126.7m, which represents £9.5m (7.5%) net slippage of the programme. The capital position was reprofiled twice during the year (in M2 and M7) to more accurately reflect the delivery of the programme.

The outturn for 2019/20, including contribution to reserves, demonstrates a continued improvement in the Council's use of resources and achievement of efficiencies.

Reserves and contingencies

The surplus of £5.3m generated from directorate budgets, has been used to increase reserves and contingencies, as follows:

- Contingency: The 2020/21 budget contingency has been increased to £32m by transferring the unused balance of £8.9m from the 2019/20 contingency and adding £2.5m of the 2019/20 Directorate surplus.
- General Fund Reserve: The remaining £2.8m of the 2019/20 Directorate surplus has been added to the General Fund Reserve, bringing this to a total of £24.1m.

Two additional reserves have been created

1. CFLC Inspection and System Renewals (£1.2m) – to fund, amongst other things, additional cost in preparation for the OFSTED re-inspection
2. COVID-19 Emergency Funding (£24.3m).

The Council's reserves position continues to improve and provides a temporary buffer against financial risk, for example if savings are not delivered to target.

Budget 2020/21 and Medium Term Financial Strategy (MTFS)

On 4 February 2020, a balanced budget of £968.4m for 2020/21 was approved by members. To achieve this balanced budget, £38m of savings and efficiencies were identified.

Looking over the following 4 years, a cumulative funding gap of £162.3m was projected by 2024/25. To close this gap, additional efficiencies of c.£40m per year would need to be identified and delivered. This was seen to be achievable in early 2020, however, the Council is currently working on reviewing and updating its MTFS in light of COVID-19.

The Council approved a capital budget for 2020/21 of £175.7m in February 2020. At M1, this has been re-forecast at £159m to recognise the impact of COVID-19 on scheme delivery.

Financial outlook 2020/21

Based on the M2 (May) forecast reported in July 2020, the Council is forecasting an overspend of £4.7m in the business as usual budget (BAU), which excludes the impact of COVID. We note that it is good practice to track cost pressures that are not directly attributable to COVID-19 and manage them separately, so that a good understanding of the underlying financial position is retained.

The key pressures are from increased waste disposal costs, and pressures in CFLC (non achievement of health income targets, demand for placements and agency staffing) which is partly mitigated by one–off underspends in school transport due to school closures. A further £1m of underlying pressure in ASC is currently being funded by non-recurrent income. We note that the high level of transparency provided in the reports to members reflects the best practice principles adopted as a result of the Finance Improvement Programme.

The report notes that there remains uncertainty about the indirect effect that COVID-19 may be having on the service activity reported as BAU. **Aside from the challenging environment presented by COVID-19 uncertainties, the Council should continue to review and manage underlying BAU budget pressures separately.**

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Value for Money – Financial Resilience (continued…)

Managing the impact of COVID-19

To cover the costs and loss of income associated with the COVID-19 pandemic, the Council received £25.2m funding from the Government. £0.9m of this has been absorbed in 2019/20, and the remaining £24.3m has been set aside as a reserve to offset against budget overspends caused by COVID-19 (e.g. future costs and loss of income).

Since the year end, a second (£21.8m) and third (£6.4m) tranche of support funding from the Government have been received, bringing the balance on the COVID reserve to £52.5m. Furthermore, the government has committed to further funding to support lost income from sales fees and charges in selected services, however the exact allocation is not yet known.

This excludes a range of other COVID-19-related financial support for specific purposes and to support businesses, providers and the wider community (e.g. Infection Control Fund and Bus Service Support Grant).

The table below describes the Councils current analysis of COVID-19 cost pressures expected to impact in 2020/21. The position is under continual review and is subject to change.

We note that since the initial estimates of COVID-19 Impact, the Council has reduced its assessment of the forecast cost to be managed from £66.7m to £51.9m (a reduction of £14.8m). This is attributed to greater confidence that the planned savings programme for 2020/21 will suffer less disruption than had initially been projected. The Council continues to monitor the position.

COVID-19 Cost Pressures in 2020/21	£m
Gross expenditure pressures	32.9
Lost income	14.7
Risks to the efficiency programme (non-deliverable savings)	4.3
TOTAL	**51.9**

Taking into account the second and third tranches of COVID-19 funding and income support, for 2020/21 the available support funding is projected to cover majority of COVID pressures. However, there are likely to be unfunded pressures, which the Council will need to manage. As noted, the council has significant resources in place to manage financial risk, including the £32m budget contingency, which could be used to help with additional pressures that could arise from a range of scenarios, including a second wave of the virus and/or a local lockdown. The council is well placed to manage COVID related pressures in 2020/21 and to protect the current level of reserves.

The implications for 2021/22 could be significant, particularly if a prolonged economic downturn and high unemployment start to erode council tax and retained business rates income, creating potentially significant deficit on the collection fund. The Council is in the process of analysing the medium term financial implications of COVID-19 as it develops its budget for 2021/22.

The financial impact of COVID-19 in 2020/21 and in the medium term remains fluid and uncertain and should continue to be closely monitored. In particular, the Council should develop a plan to manage the potential impact of increased levels of Local Council Tax Support and a reduced business rates base.

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Value for Money – Financial Resilience (continued…)

The Finance Improvement Programme (FIP)

In September 2018 the Finance Improvement Programme (FIP) was launched, in response to the report commissioned by CIPFA in summer 2018, which raised concerns about the Council's financial position and its standards of financial management. The FIP has delivered:

- A newly restructured Finance function.
- A new framework for budget management across the Council, including six hallmarks of a "good" budget – these were developed and self-assessed when developing the 2020/21 budget and Medium-Term Financial Strategy (MTFS), which were approved on 4th February 2020.
- A learning and development platform (The Finance Academy).

The External Assurance Panel was also established at the inception of the FIP as sounding board.

The Council has concluded that it has addressed each issue raised in the CIPFA report and so the FIP was completed and closed in June 2020. The success of the FIP appears to have greatly improved the Council's ability to achieve Economy, Efficiency, and Effectiveness in use of its resources.

Budget Process Evaluation 2020/21

Once the budget had been set, a review of the process took place, with officer and member participation and buy-in. A number of themes emerged and high-level actions agreed which will feed in to the 2021/22 process. One of the key underlying themes which came through the evaluation process was to engage better, to foster transparency and allow feedback and scrutiny earlier in the budget process, including through earlier involvement of select committees.

This culture of self-review will enable the Council to continuously improve its budgeting processes and it will need to ensure that the findings from this review are integrated into processes going forward.

Partnership Agreement for Excellent Financial Management

We noted that this is one of the main focus areas of the new Organisational Strategy 2019-23. A key strand of the agreement is to embed the Finance Business Partner approach where the Finance Service operates at the heart of the organisation and is trusted, proactive and insightful.

The Finance Business Partner approach offers a good opportunity to improve the Council's standards of financial management. As it is at the early stages of embedding, we will continue to monitor its progress.

Minimum Revenue Provision

As noted on page 13, the Council's MRP policy statement diverts from the requirements of the Statutory Guidance in a number of areas, most significantly:

- Where loans are made to other bodies for their capital expenditure, and are to be repaid under separate arrangements, no MRP will be charged. The capital receipts generated by the repayment of those loans will be set aside to repay the debt.
- The council will determine MRP on equity investments based a 20 year life. However, for equity investments in asset backed companies, a 50 year life will be assumed to match the Council's policy for investment assets.

Having considered these two items and the legal advice provided by the Council's in-house legal team we are satisfied that the Council's actions are not unlawful.

We have taken the above items into account in considering the Councils financial resilience arrangements.

Conclusion

We are satisfied that the Council has made significant progress in ensuring that its financial position is resilient and that adequate arrangements are in place as at 31 March 2020.

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Value for Money – Children's 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".

2019/20 Monitoring visits

Following the 2018 inspection report the Council had two monitoring visits from inspectors in March, June and December 2019.

In December 2019 inspectors evaluated the timeliness and effectiveness of strategy meetings and child protection investigations; the quality and timeliness of assessments completed about children and families; the progress made for children who are the subjects of child in need and child protection plans; and the response to older children who are experiencing, or who are at risk of, child exploitation.

They concluded that Senior leaders and managers have made substantial progress in improving the response to children who are at risk of significant harm, and children who have subsequently become subject to child protection and child in need plans, since this area of practice was last evaluated at the September 2018 monitoring visit.

A new practice model is being rolled out through a phased implementation programme, and all social workers seen during the visit have undertaken some initial training and have taken part in development activities. Critically, social worker caseloads in the assessment and family safeguarding teams have reduced markedly to an average of 15 cases, and these manageable workloads are enabling social workers to undertake an improving standard of assessment, planning and direct work with children.

Management oversight and supervision are visible and regular. The recording of supervision often comprises lengthy reviews of work undertaken, and rarely features evidence of proactive, inquisitive approaches, generating questions and ideas for social workers to help them address entrenched difficulties. Some specialist workers, notably child and adolescent mental health professionals, are already working alongside social workers, helping them to formulate ideas and plans in order to strengthen their direct work with children and parents.

An extensive audit programme continues to provide managers with a comprehensive and accurate assessment of the quality of social work practice and frontline management oversight. The significant time and effort invested in a high standard of quality assurance activity is a cornerstone of continuing effective improvement work.

Conclusion

Overall, improvements in the quality of social work, management oversight and supervision are gathering momentum, but practice is not yet consistently strong for all. The Authority was preparing for a follow up inspection towards the end of 2019/20 however the Covid pandemic has meant that a number of expected inspections did not take place as planned. As a result the previous qualification of the value for money conclusion in respect of the adequacy of Childrens Services will remain in place for 2019/20.

DRAFT

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. In the draft accounts the Council has recognised payments totalling £71.3m 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 has passed minimum performance and reliability tests.

The Gasification facility was due to be operational by 7 November 2017 and so is significantly delayed. Management have been working with their technical, financial and legal advisors to manage the delivery of the whole PFI scheme as well as the delivery of the Eco Park assets. The Council's waste assurance board has received regular reports on progress with the development and ongoing contract management arrangements for the wider PFI scheme.

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 are being managed by the Council, hence the decision not to change the liability recognised in the accounts in 2019/20.

Conclusion

We are satisfied that the Council's arrangements to manage the impact of the delays to the delivery of the Eco Park are adequate and that it is utilising the full range of external advisors to ensure that it takes appropriate advice in relation to its duties and responsibilities under the contract.

DRAFT

Independence and ethics

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

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

DRAFT

Independence and ethics

Audit-related 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 which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	4,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £140,415 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Teacher's Pensions return – Surrey Choices Limited (Council)	3,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	As above

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription (Council)	12,500	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 £12,500 in comparison to the total fee for the audit of £140,415, 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. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

DRAFT

Action plan – Group and Council

We have identified a number of recommendations for the Group and Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	**Recommendations from Value for Money Audit Work** 1. The Council should continue to consider ways to mitigate demand in SEN transport and ensure that the measures taken to deal with this in the 2020/21 budget are adequate, once the service returns to normality following the recent school closures. 2. Until the current dialogue on SEND funding with the Department for Education is concluded, there remains a risk that the Council will be required cover this liability from general resources which could pose a significant threat to financial resilience. The Council will need to continue to manage the risk within its existing resources 3. Aside from the challenging environment presented by COVID-19 uncertainties, the Council should continue to review and manage underlying BAU budget pressures separately. 4. The financial impact of COVID-19 in 2020/21 and in the medium term remains fluid and uncertain and should continue to be closely monitored. In particular, the Council should develop a plan to manage the potential impact of increased levels of Local Council Tax Support and a reduced business rates base.	See specific recommendations under the issues set out to the left. **Management response** Management will continue to review the arrangements for the SEND deficit in light of emerging guidance from DfE.
Medium	**Property, Plant and Equipment Disposals** Our sample testing of Property, Plant and Equipment disposals identified three assets that should have been written out of the balance sheet in earlier years, but had only been written out this year following a review of the asset register. The Council have struggled to quantify the total impact of this in the current financial year. If assets remain on the balance sheet in excess of true disposal dates, excess depreciation is charged to the CIES and the balance sheet will be overstated.	Management should carry out more regular existence review of assets held on the balance sheet, particularly VPE assets, to gain assurance that those assets remain theirs and in use. **Management response** We have provided working papers for this. We reviewed the assets and derecognised them. The Council are satisfied that the impact is immaterial in 19/20 and that we will carry out regular reconciliations going forward.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

DRAFT

Action plan – Group and Council

We have identified a number of recommendations for the Group and Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Minimum Revenue Provision ('MRP')** As described on page 18, the MRP policy is deemed imprudent, although not unlawful. An added degree of uncertainty surrounding repayments exists in the current economic climate so the policy is risky.	The Council should review their MRP policy as soon as practicable to reflect market uncertainty, with regard to the statutory guidance. To address the combined issues of prudent provision and liquidity, the below could be considered trigger points for review: - The underlying value of properties and retained earnings full below outstanding debt, or; - If there is any other indication that the Council would be unable to fulfil its obligations to repay the outstanding PWLB loans. Should the Council decide to stick with the existing policy in the coming years, the Audit and Governance Committee should document their approval of this on an annual basis; the Council should review the relevant loans each year as part of the agreement. **Management response** We will review the policy to ensure that our provision remains prudent
Medium	**Historical creditor balances on the balance sheet** Our sample testing of short term creditors identified several errors within the creditor balance relating to uncleared balances on account codes from earlier financial years.	Management should review accounts payable ledgers for uncleared transactions and balances. **Management response** We agree there can be improvements in this area and will carry out work in 20/21 to investigate errors and uncleared balances

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

DRAFT

Action plan – Group and Council

We have identified a number of recommendations for the Group and Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	**Allowance for expected credit losses** The Council account for the impairment of their receivable balances using a model based on general provision percentages applied to the ageing of outstanding debt, based on management's judgement on the type and collectability of the debt. The total provision in the accounts is £24.5m From our review of management's assessment at year-end, the method applied by the Council is found to not consistent with the requirements of IFRS 9. £14.6m of the provision relates to collection fund debt; the County places reliance on the District Councils having calculated their provisions appropriately for this. The debt relating to the remaining £9.9m (which relates to adult social care and general accounts receivable balances) should be assessed for forward looking assumptions, particularly in light of uncertainties created around the recoverability of debts in the Covid-19 pandemic.	IFRS 9 requires that expected credit losses are factored into the assessment based on the default rate percentages from historical credit loss experience adjusted for forward looking assumptions. Given the relative size of the balances, application of IFRS 9 is unlikely to be material, but we recommend that management factor the expected credit loss model into their assessment to ensure compliance with the standards going forwards. **Management response** Given the nature of the majority of the non-collection fund debt we do not they will be materially impacted by COVID-19 economic impacts

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

DRAFT

Follow up of prior year recommendations

We identified the following issues in the audit of the Group, Council and Pension Fund's 2019/20 financial statements, which resulted in 1 recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated (Pension Fund)	Update on actions taken to address the issue
x	In the prior year audit, our testing of membership data found that supporting documents such as evidence for sending out the welcome pack could not be obtained due to an administration backlog of these being sent out. The length of delay was of the order of 4 - 6 months. This supported the findings of an Internal Audit Report during 2018/19 into pension fund administration which provided a minimal assurance opinion. Part of this was due to a large backlog of tasks that were incomplete.	**Management response** The 2018/19 audit report identified issues with new starter processing due to a case backlog. The new starter backlog has now been resolved and a process review completed to mitigate future backlog in this area. Backlog still exists in other case areas, but, resource has been allocated to backlog clearance and this has reduced from c20,000 cases in April 2019 to c3,000 cases in April 2020. It is on-track to be fully cleared by January 2021 **Auditor assessment** Our testing of membership data identified that an administration backlog still exists. Internal audit also carried out a further review of the Pensions Administration system, also finding that work to clear the historic back log spanning all six funds administered by SCC continues.

Assessment

✓ Action completed

x Not yet addressed

DRAFT

Audit adjustments – Group and Council

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 2020.

Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Derecognition of Eco-Park Gasifier Derecognition of the carrying amount the Eco Park gasifier given the view that it is no longer probable that the economic benefits or service potential will flow to the entity, resulting in a £42.3m reduction in the CIES.	42,288	(42,288)	42,288
Collection Fund Adjustments Collection fund account balances, transactions and disclosures are taken directly from the District and Borough returns. The Council received these following production of the draft accounts and therefore rolled forward figures from the prior year for the purpose of preparing the draft financial statements. The returns subsequently provided have allowed for updates to income and expenditure from NDR and Council tax recorded in the CIES and Note 11, as well the corresponding entries to the balance sheet within debtors, creditors, bad debt provisions, and the NDR appeals provision. The combined impact is a £26m reduction in the CIES.	26,095	(26,095)	Nil
Overall impact	**£68,383**	**(£68,383)**	**£42,288**

DRAFT

Audit adjustments – Group and Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Halsey Garton Equity Investment We challenged the fact that investments in Halsey Garten had been held at historic cost within the draft accounts, at £92.9m. Management subsequently prepared a valuation based on the net present value of future cashflows to enforce their view that the carrying value is not materially different to the fair value. We are satisfied with the valuation, which suggests that the investment should be held at £89.2m, a decrease of £3.7m.	3,748	(£3,748)	3,748	The impact is not material to the financial statements
Property, Plant and Equipment disposals We identified a school as one that should have been disposed in 2019/20 due to it having attained Academy status in-year, but the school in question could not be identified on the asset register. It transpires that the school should have been added in 2014/15 following CIPFA guidance on re-admission of foundation schools, after being disposed in the 2013 financial year with a book value of £2.2m. Uplifts in build cost indices from 2013 would give an indicative estimated carrying value of £3.3m for the school within the current year, had it remained on the balance sheet and been revalued. The missed annual depreciation charges are judged to be circa £144k, assuming a useful life of 20 years.	144	(144) (3,300) 3,300	144	The impact is not material to the financial statements and it is not possible to identify the true retrospective impact of subsequent valuations
Property, Plant and Equipment additions Our sample testing of additions noted a capital expense recorded in 2019/20, but the underlying capital works took place in 2018/19. No accrual had been recorded, meaning that additions in 2019/20 are overstated. It was not possible to isolate the error, and as such the error rate in our sample was extrapolated over the total additions balance, giving an extrapolated overstatement of £5.7m	Nil	(5,749) 5,749	Nil	Extrapolations are not true errors, so adjustment would not be appropriate.
Overall impact	**£3,892**	**(£3,892)**	**£3,892**	

DRAFT

Audit adjustments – Group and Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Assumptions made about the future and other major sources of estimation uncertainty	Additional detail was added to the disclosure note to emphasise valuation uncertainties relating to property assets arising from the impact of the Covid-19 pandemic, including specific narrative for investment properties, to more fully reflect the nature and cause of the uncertainties reported by management's property valuation specialist. An additional disclosure was also added to reflect material valuation uncertainties relating to the net defined benefit liability in the Council's balance sheet.	✓
Financial Instruments	We challenged the Council as to why the fair value of PFI debt was equal to the amortised cost. The Council subsequently valued PFI debt on a cashflow basis with the use of an expert. Adjustments to the 2019 and 2020 fair value of the PFI leases have resulted in an adjustment to the fair value disclosed on these assets in both current and prior year figures; from £132.7m to £200m in 2019, and £98.4m to £167.5m in 2020. As the liabilities are correctly held at amortised cost in the accounts, there is no impact on the Comprehensive Income and Expenditure Statement.	✓
Financial Instruments	Investments in Halsey Garten are held should be changed from level 1 to Level 3 given that given that shares in Halsey Garton are not traded in active markets, and valuation bases for non-listed companies are not based on observable inputs.	✓
Post balance sheet events	The Council does not reference Covid-19 as a post balance-sheet event. We would expect covid-19 to be referenced in the PBSE disclosure given the financial impact of the pandemic on the Council after 31 March 2020.	✓
Group Movement in Reserves Statement	In the draft accounts, the Group MiRS statement did not fulfil the disclosure requirements of the CIPFA Code. The statement did not include adjustments between group accounts and authority accounts, nor the authority's share of the reserves of subsidiaries, associates and joint ventures. Management have updated the accounts accordingly.	✓
Defined benefit pension schemes disclosure	Within note 38, reversals of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits through reserves were disclosed incorrectly and should have been (£154,976k) and not the (£64,428k) disclosed.	✓

DRAFT

Audit adjustments – Group and Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Eco Park disclosure changes	Following on from the derecognition of the Eco Park gasifier, adjustments are required to: • EFA and EFA note • Financial Instruments • Expenditure by nature • Group Accounts • Critical Judgements • Narrative Statement – Overall deficit and asset balances • Critical Judgement disclosures	✓
Other, minor amendments	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

DRAFT

Audit adjustments – Pension Fund

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

No adjusted misstatements impacting on the Fund Account or Net Assets Statement have been identified through our audit procedures.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Fund Account £'000	Net Assets Statement £' 000	Reason for not adjusting
Private Equity Valuations: Updated fund manager valuations for 31 March 2020 were obtained for private equity funds after management had prepared the draft accounts. The updated valuations represented a £13.8m decrease from the position reported, to £292.1m.	(£13,767)	(£13,767)	**Management response:** It was based on our understanding of Private Markets and discussions with our Head of Alternatives at Border to Coast, that private markets wouldn't be as significantly impacted in their valuations compared to publicly listed equities, given their nature as illiquid assets. As the £13.8m is not material at an audit level, we are happy to not make this adjustment to our valuations
Pooled Property Valuations: Updated fund manager valuations for 31 March 2020 were obtained for pooled property investments after management had prepared the draft accounts. The updated valuations represented a £2.3m decrease from the position reported, to £278.1m.	(£2,319)	(£2,319)	**Management response:** Similar to private markets, given the nature of property funds as illiquid assets, we expected any change in valuation to not be as significantly impacted in their valuations as at 31 March 2020 compared to publicly listed equities during COVID-19. Any market reaction in global property markets as a result of COVID-19, is still unclear and less correlated than public markets. As the £2.3m is not material at an audit level, we are happy to not make this adjustment to our valuations
Overall impact	**(£16,068)**	**(£16,068)**	*Below audit performance materiality*

DRAFT

Audit adjustments – Pension Fund

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

Disclosure amendment	Detail	Adjusted?
Sources of estimation uncertainty	Management have enhanced the disclosures in the financial statements around sources of estimation uncertainty to make specific reference to material valuation uncertainties around pooled property and private equity investments, as a result of the impact of the Covid-19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.	✓
Other Covid-19 amendments	The Fund does not reference Covid-19 as a post balance-sheet event. We would expect covid-19 to be referenced in the PBSE disclosure given the financial impact of the pandemic on Fund investments after 31 March 2020.	✓
Stock Lending	No prior year comparator was included in Note 17c for stock lending or associated collateral. The prior year values are £53.8m and £57.9m respectively, and need to be included in the note.	✓
Boarder to Coast Pension Partnership	Additional disclosures will be required for BCPP as a related party, including the nature of the relationship and the value of transactions. The Fund should also update the description of the fund section to explain the relationship of the partnership to the Fund.	✓
Key Management Personnel disclosure	Some key management personnel were originally omitted from the note, but have now been included.	✓
Other, minor amendments	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

Impact of prior year unadjusted misstatements

No unadjusted misstatements relating to the Pension Fund were identified during the 2019/20 audit.

DRAFT

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£140,415	TBC
Pension Fund Audit	£31,371	TBC
Total audit fees (excluding VAT)	**£171,786**	**TBC**

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	4,000	4,000
• Certification of Teacher's Pensions return – Surrey Choices Limited	3,500	3,500
Non-Audit Services:		
• CFO Insights subscription	12,500	12,500
Total non- audit fees (excluding VAT)	**£20,000**	**£20,000**

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