

# Auditor's Annual Report on Surrey County Council

2020/21

February 2022



# Contents



We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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

# Executive summary



## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

### Headlines

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. As required by the NAO guidance to auditors this report reflects the arrangements in place in 2020/21 and does not take into account changes or improvements made subsequently. We are required to consider risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

The table below sets out the RAG rating we have assessed for each of the three areas. The rating is split between the rating following our initial risk assessment and the rating following our detailed review of the Council's arrangements.

It is pleasing to note that all of the matters raised in this report were already identified by the Council for improvement, and further, that in respect of the two significant weaknesses reported, those being, the Ofsted rating of Children's Services and the need for transformation of pensions administration, that management already had transformation plans in place to ensure improvement in arrangements are implemented and embedded.

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made



### Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Surrey, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained an improved financial position. The Authority had put forward a series of proposals which forecast a balanced budget for the 2022/23 year. However, the 2021/22 to 2025/26 MTFs identified a funding gap of £178 million over the next 5 years. Savings of c£40m per year were identified as being necessary to address this.

Overall, the Council has a reasonable amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.

Further details can be seen on pages 7-12 of this report.



### Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority and the changes instigated as a response to the pandemic.

Pensions administration has been identified by the Council as an area that requires transformation to ensure arrangements are appropriate. The Council has an agreed transformation programme in place to ensure appropriate arrangements are in place before the end of 2022/23. Pensions administration is an important part of an administering authority's responsibilities and as such we consider this to represent a significant weakness.

The most recent (2018) Ofsted review rated children's services as inadequate. Whilst we recognise the Council has over the last three years been working to deliver an improvement plan in this area, and regular monitoring visits from Ofsted confirm that improvements are being made, we consider it necessary to highlight this as a significant weakness, as this rating remained in place during 2020/21.

Criteria	Risk assessment	Conclusion
Governance	Potential risks of significant weakness owing to Ofsted rating of children's services, inadequate risk management processes in place in year and issues with pensions administration	Significant weaknesses in arrangements reported, with key and improvement recommendations made. The Council was aware of these issues, and has been acting to address these weaknesses during the year.
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made

# Executive summary

Overall, we confirm that significant weaknesses existed in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks in 2020/21.

Further details can be seen on pages 13-22 of this report.



## Improving economy, efficiency and effectiveness

The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

The Council's organisation strategy was refreshed during the year. These four objectives are high profile and referred to throughout most of the key strategic documents and reports presented to members, including the budget and MTFS.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

Further details can be seen on pages 23-33 of this report



## Opinion on the financial statements

We have completed our audit of the Council's financial statements and plan to issue an unqualified audit opinion following the Audit & Governance Committee meeting on 29 November 2021. Our findings are set out in further detail on page 33.



# Key recommendations



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

Only two significant weaknesses in arrangements were identified, both of which were known to, and being dealt with by, management and therefore we have made two key recommendations. These recommendations are set out on pages 16-18.

The range of recommendations that external auditors can make is explained in Appendix C.

# Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Local Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:



## Financial Sustainability

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



## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 35.



# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 2020/21 and ongoing financial pressures

Surrey County Council achieved a £3.9m general fund surplus outturn for the year, and was able to make an overall contribution of £7.8m to its reserves. This was broadly in line with the expectations set out in the budget.

The Council has seen a steady decline in its funding from the local government funding settlement over the last ten years, and the Council's Medium Term Financial Strategy (MTFS) assumes a continuation of this declining trend. This uncertainty around future funding is expected to be managed through decisions around discretionary elements of funding, particularly the extent to which the Adult Social Care (ASC) precept is utilised (currently not included in MTFS projections) and through corporate contingencies.

Following the Financial Improvement Plan (FIP), the MTFS was specifically reviewed, and the challenge identified by the Council was to deliver an MTFS that did not focus on short term solutions. Key assumptions within the plan have been reviewed and now there is a more prudent approach to setting out financial plans in place. A monthly budget monitoring report is provided to Cabinet for the approval of any necessary actions and amendments, so there is regular scrutiny of the Council's financial position and of the ongoing funding pressures it faces.

The 2021/22 – 2025/26 MTFS identifies a funding gap of £178 million over the next 5 years. Savings of c£40m per year are identified as being necessary to address this. The approach to closing this funding gap is regularly discussed outside of Cabinet meetings with Directorate Leadership Teams, the Corporate Leadership Team (CLT), the Leader and the Cabinet Member for Finance.

The 2021/22 budget assumes no use of reserves and there is no evidence of an unsustainable planned use of reserves over the course of the MTFS. The Council has strengthened its useable reserves position and there is adequate provision within reserves to manage one-off emergencies. We are pleased to note that the Council achieved a balanced budget in 2020/21 and has set a balanced budget for 2021/22. The annual governance statement sets out, this is the third successive year in which the Council has not relied on reserves to balance the budget, which is to be commended, though this is not yet a long-term trend and the Council needs to remain cautious.

There has been a prudent approach in setting aside an earmarked reserve to match the Direct Schools Grant (DSG) deficit. By treating this deficit as a current cost, the Council has provided against any future shocks if this deficit is not fully funded by government.

The Council set a capital budget for 2020/21 of £176m. The budget was reset during the year to reflect the impact of Covid-19 and for the purchases of Woodhatch and the Dakota office accommodation. As a result, the 2020/21 capital budget was revised to £244m. Capital spend for the year against this budget was £241.3m, so good progress was made against the capital programme.

# Financial sustainability

## Savings plans

In 2020/21 the Council achieved £29m of the £38.1m of planned efficiencies. The unmet balance was achieved through alternate (previously unidentified) savings and are captured in the 2021/22 budget. The Council has set a balanced budget for 2021/22.

Whilst there is an identified funding gap of £178m over the MTFS period, ongoing work is being carried out to identify pressures, possible efficiencies and any slippages. This will require a high level of ongoing monitoring from those charged with governance (TCWG). Presently, Cabinet is provided with monthly updates on funding, pressures and efficiencies and forecast budget variances.

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The approach to closing this funding gap is regularly discussed outside of Cabinet meetings with Directorate Leadership Teams, the Corporate Management Team (CLT), the Leader and the Cabinet Member for Finance. As these funding pressures have been identified by the Council and are being addressed within the Council's financial plans, this does not point to a significant weakness in the arrangements in place, albeit there remains a risk in terms of the financial pressures being faced by the Council.

We have identified this as an improvement recommendation.

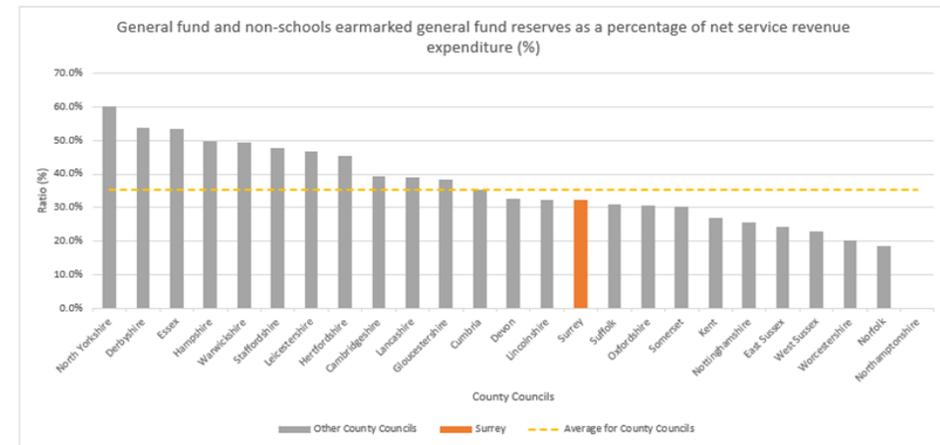
## Financial Planning

The 2021/22 budget includes a 1.99% increase in Council Tax, the maximum which was allowed in that year plus a 0.5% increase in the ASC precept (2.5% lower than the maximum allowed for by the Government). The Council Tax increase provides flexibility for the following financial year, and this is anticipated to provide the headroom required to deal with the expected pressures of increasing ASC costs. For 2020/21 and 2021/22, the Council has included a base budget contingency of £20m. An additional £9m contingency exists to specifically mitigate potential slippage in the SEND efficiency programme.

The budget and MTFS have been designed to be integrated with the core strategic priorities of the Council (its Community Vision). This planning aims to provide a framework to invest in the Plan's broader ambitions and long term priorities, as well as the recovery from COVID-19.

The capital programme also supports the Council's corporate priorities. The capital budget for 2020/21 of £175.7m was increased during the year to reflect the purchase of the new Council offices of Woodhatch Place and Dakota. We have identified an opportunity to improve reporting against the capital plan by separately identifying the revenue costs of a capital programme.

The 2021/22 budget shows an expected increase in reserves, with a contingency fund increasing from £33.4m to £53.8m. Combined with the planned increase in the general fund reserve, this gives an expected year end useable reserves balance of £78m of cover to mitigate against future risk and uncertainties. Whilst this is an improved position, total unallocated reserves remain lower than the average for county councils.



Based on the graph above the Council's General Fund and non-schools earmarked general fund reserves represent approximately 30% of its net service revenue spend. It shows that this is marginally below the average for County Councils but is not a significant issue for the Council. While the Council's General Fund Balance remains below 5% of net service revenue spend, the level of earmarked reserves mean that the Council has significantly more than this to manage any one off items of spend that may arise.

# Financial sustainability

## Managing risks to financial resilience

Risks are considered within the budget and MTFS and the monthly reporting to Cabinet highlights these risks. These include the risks of not achieving the savings anticipated from transformation programmes, the risks associated with the HNB deficit and whether the reserves levels are adequate to meet emerging risks.

The 2021/22 budget shows an expected increase in reserves, with a contingency fund increasing from £33.4m to £53.8m.

Across the subsidiary companies at Surrey County Council, a combined income target of £21m p.a. is assumed. This is built into the corporate income target in the budget and has generally been met. Whilst there is sound and regular oversight of the subsidiaries, we have identified an opportunity to improve the financial reporting over these subsidiaries.

## Medium term financial planning

Scenario planning across pessimistic, optimistic and likely assumptions was undertaken in developing the MTFS. The plan also assumes ongoing increased demand for ASC and in SEND provisions and an ongoing increase in the local population. This demonstrates a realistic and pragmatic approach to developing the MTFS, and that the level of consideration given to expenditure drivers and demographic pressures is as expected.

The MTFS is a rolling document linked to the budget and subject to the same level of monthly review as the budget. This is good as it is not treated as a static document and it reflects the current environment in which the Council is operating.

## Conclusion

Overall, the Council has an adequate capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have identified some opportunities for improvement. These are set out overleaf.



# Improvement recommendation



## Financial Sustainability

<b>Recommendation</b>	Consideration could be given to setting out the revenue costs of each capital programme as a separate line in the reporting of each capital programme to Those Charged with Governance.
<b>Why/impact</b>	The revenue costs / implications of capital programmes are not made clear to TCWG. This reporting could be improved which might provide a better understanding of the revenue implications of each capital programme.
<b>Auditor judgement</b>	The revenue budget just has the costs by directorate and the capital budget has the costs by programme. The information provided is at too high a level to identify the revenue costs of capital projects.
<b>Summary findings</b>	Whilst the commentary in the budget states that the full borrowing costs of proposed Capital Programme ARE reflected in the revenue budget, this is not clearly identified or separated in the budgetary information provided to TCWG.
<b>Management comment</b>	<p>CLT and Members (including Scrutiny) are aware that any scheme funded from borrowing attracts an annual revenue cost of c.4% of the amount borrowed (based on MRP+ interest and depending on asset life). The costs of borrowing to fund the capital programme are drawn out in Select Committee scrutiny reports and in the full budget report.</p> <p>Consideration will be given to how this can best be set out on a scheme-by-scheme basis for the 2023/24 budget process, noting that the 2022/23 budget has already been completed and approved.</p>



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Financial Sustainability

**Recommendation** Whilst there is good, regular reporting of the financial position and performance of the Council's subsidiary companies, detailed financial information is only presented to the Shareholder Investment Panel (SHIP). A detailed breakdown of the expected financial contributions from these companies is not separately identified in the monthly budgetary information provided to Cabinet.

**Why/impact** SHIP is an officer led body. Whilst the oversight from SHIP is considered to be good, it could be helpful for members at Cabinet to see the financial contribution of these companies and to understand any issues in a timely fashion.

**Auditor judgement** Oversight of the subsidiaries at a member level could be improved.

**Summary findings** Members do not receive regular information on the financial performance and position of the Council's subsidiary companies. This could be improved, and would also provide members with information on the progress against target of the expected financial contributions from these subsidiaries.

**Management comment** Asset Strategy Board (ASB), an informal Member-led board, receives the minutes of SHIP following each meeting. These minutes are reviewed and discussed during ASB in the meeting following SHIP. SHIP operate under a Terms of Reference (ToR) set by Strategic Investment Board (SIB). SIB is a Member-led Board and is a sub-Board of Cabinet. Any decisions that fall outside of the SHIP's ToR are taken to SIB for approval. SIB therefore review and approve any material decisions in relation to the companies, i.e. Capital spend over £1m, purchasing of shares, or a change in strategy.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Financial Sustainability

**Recommendation** Continued from page 11.

**Management comment**

An annual report from SIB is submitted to Cabinet in order to give visibility to Members of the performance of the companies in which SCC has invested. The annual statutory accounts of the wholly owned subsidiaries are submitted to the Audit & Governance Committee for review.

Following 31<sup>st</sup> March 2021 a review of the governance of the companies has been undertaken by SCC. Improved oversight has been recommended for Members with a six-monthly update from each wholly owned subsidiary being provided informally to SIB. In addition, a mid-year update will be added to the annual updates provided to Cabinet by SIB.



The range of recommendations that external auditors can make is explained in Appendix C.

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Monitoring and assessing risk

During the course of 2020/21, the Council identified via a baseline review that its approach to risk assessment and risk management required improvement. EY were appointed as risk management partners who undertook a review of the Council's risk management processes. Following this review, the Council developed a risk management strategy which identified best practice and incorporated the recommendations from EY. This was approved by the Audit and Governance Committee (AGC) in September 2021 (after the year under review), along with a 'Corporate Risk Heat Map'. There is now also a risk governance group comprising senior officers and the Chief Executive. This meets every 6 weeks.

The emergence of COVID-19 at the start of 2020/21 required the Council to revise its arrangements and service departments were required to complete a Daily Service Status Report (DSSR) to submit to Emergency Planning to correlate and compile for business continuity purposes.

The DSSR was comprised of a number of areas for key services to consider as the pandemic strengthened, which included the:

- Ability to identify and cope with demand pressures on the service;
- Adequate resourcing levels to deliver the service;
- Access to physical records and information;
- Technology stability and access to core IT systems;
- Access to buildings (where necessary);
- Access to key equipment and materials, including PPE; and
- Impact of lockdown in terms of movement restrictions for staff and customers.

Internal Audit supported the design and embedding of the DSSR process, working alongside corporate project managers, and then supporting the implementation of the process through supportive conversations and challenge sessions with those service representatives who were tasked with completing the report. This led to more consistent and validated information being provided back to Emergency Planning, which proved crucial in the early days of the Council's response to COVID-19.

The AGC received regular risk management updates over the course of the year as EY provided details on their work as the Council's strategic risk partner. In March 2021 the committee were provided with a schedule of the top 20 strategic risks as identified by EY (in collaboration with management). This schedule did not assign risk owners, nor did it set out mitigating strategies or a response plan, though this has subsequently been compiled.

Whilst the strategic risk list was extended to 25 strategic risks, which are RAG-rated, risk owners were not set out in it. Nor are mitigating controls or actions required set out against each risk at this time. Risk registers have not yet been produced at a service or directorate level. The Council have also produced a risk management strategy, but this is a generic document setting out best practice. We have made a number of risk management improvement recommendations, which are in line with those being considered by the Council.

# Governance

Internal Audit is provided as part of the Orbis service across three councils. The annual audit plan was revised mid year in the wake of the Covid-19 pandemic, which caused the suspension of the original annual Audit Plan. This enabled the Internal Audit service to be deployed in other ways to support the Council during the initial phases of the pandemic. This included seconding staff to support front line delivery. The Internal Audit annual report contains the opinion of the Chief Internal Auditor and provides “reasonable assurance” there is “an adequate and effective framework of governance, risk management and internal control” for the 2020/21 year. In addition, Counter Fraud Specialists undertake a programme of work, including a mix of proactive and investigatory work. Findings are reported appropriately. There have been only minor instances of fraud identified as being perpetrated in 2020/21, although some matters have been referred to other investigating authorities.

The AGC receive quarterly updates from Internal Audit setting out work completed in the quarter, assurance ratings on each reports and action plans in place against their recommendations, so there is good oversight of the work of this service.

25 Internal Audit reports were completed over the year, together with ten reports on grant claims. In addition, 15 additional audit reviews were undertaken (without formal reports issues), eleven of which were over COVID 19 adaptations. Internal Audit also provided a significant amount of advice and assurance on key controls over new systems established to enable remote working and over the Council’s receipt and accounting for (new) grant monies. There is a good acceptance of recommendations, with 100% of high priority actions agreed by management.

Internal Audit have highlighted concerns over pensions administration at the Council. Following this, a project board was established to look at improving pensions administration. A transformation programme is in place, and there is an ongoing process to interview staff for the new roles required.

There remains a significant backlog of pensions administration work and whilst some improvements have been made, this remains work in progress. We have identified this as a significant weakness from a VFM perspective as this could lead to, or could reasonably be expected to lead to, a significant impact on the quality or effectiveness of service. This is also a significant weakness as it represents a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans recommended by internal audit.

## Budget Setting Process

The budget process is led by the Strategic and Integrated Planning Group (SIPG), which includes Strategy, Policy, Finance, HR, Transformation and Directorate representatives. The budget and MTFS are based on a set of Core Planning Assumptions and are aligned with each Directorate’s service plans and the Council’s Corporate Priorities.

The budget is developed through Directorate Leadership Teams (DLTs) / Strategic Capital Groups and the Capital Programme Panel (CPP), which approve budget proposals to be reported to the Corporate Leadership Team (CLT). The CLT approve the budget framework and approach, developed through SIPG and the CPP. CLT consider, modify and approve budget proposals before they go to Cabinet, who are engaged informally at first and then formally through the draft budget process in November. The final budget is considered by Cabinet in January.

The 2021/22 budget and the 2021/22 to 2025/26 MTFS are closely aligned, in that they are produced in a single, rolling document. It had been recommended by an External Assurance Panel that future budget setting processes be assessed against a best practice framework, which the Council has done since 2020/21.

## Budgetary control

A partnership agreement between budget holders and finance sets out the respective roles and responsibilities of everyone involved in budget management. Finance works with budget holders to identify, report and manage variances in line with this partnership agreement

Monthly budget monitoring takes place through DLTs, CLT and Cabinet. The Monthly Budget Report is a standing item on the Cabinet agenda. This report sets out and explains variances, together with the actions being taken or required. The report sets out outturn information by service, and the accompanying commentary explains what the key drivers behind these figures are. As the report is arranged by service, Cabinet members can focus on their own portfolio, as well as get a sense of the overall performance of the Council.

There is also an annual Treasury Management Report made to Cabinet. This sets out investments but the focus is on borrowings as the Council has a low level of low-risk investments. This reporting is adequate and complies with both CIPFA and legislative reporting requirements.

The finance team has been strengthened since the Financial Improvement Plan (FIP) and it is now a dedicated Surrey County Council finance team (no longer an Orbis team across the three authorities). The FIP has been successful in restoring the credibility of the finance function and the budgetary information provided to members is considered sound.

# Governance

The governance around the Capital Programme is now led by Capital Programme Panel (chaired by a senior member of the finance team) and the three Strategic Capital Groups (SCGs) for Property, Infrastructure and IT. The capital pipeline holds schemes in the early stage of development which are moved into the approved budget only when their benefits and deliverability are adequately demonstrated to CPP and Cabinet.

We understand the Council commissioned PwC to report on the governance of the capital programme. Whilst many of the recommendations have now been implemented, there remain a few outstanding areas. The Council should ensure all aspects of the PwC report on governance over the capital programme are fully implemented.

## Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The Council operates a Leader and Cabinet form of executive arrangement. In addition, there are scrutiny committees which hold the Cabinet to account.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture. We have identified some opportunities to strengthen these with a central register of members' interests and similarly a central register of gifts and hospitality declared to be published online.

## Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

All decisions referred to members are set out using a template. That template includes legal and regulatory implications. This requires legal advice to be obtained or confirmed before all decisions are taken, to ensure decisions are appropriate.

An Ofsted 'inadequate' rating remains in place for children's services. An inspection in 2018 found "too many vulnerable children were left exposed to harm for too long". Whilst there has been a "getting to good" improvement programme in place, as Ofsted have not been able to carry out a full inspection during the pandemic, the inadequate rating has not changed.

There have been monitoring visits and a focused visit from Ofsted over the period which have identified positive changes, but not all critical indicators have shown improvement. Progress against the improvement plan is reported regularly to CLT and to members, and best practice is being adopted with a bi-monthly cycle of alternating audits (which involve case note reviews) and practice observations. This provides a qualitative input to the reviews of progress against the improvement plan.

The Children's Services team also has a 'user voice and participation team' who seek and collate feedback from users.

Having led the service for an interim period, the Council's Chief Executive remains close to this team and takes a keen interest in the progress against the improvement plan. However, the Ofsted rating in place represents a significant weakness from a value for money perspective as this leads to – or could reasonably be expected to lead to – a significant impact on the quality or effectiveness of the service.

## Conclusion

Overall, we confirm that significant weaknesses existed in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks in 2020/21. Our key recommendations are set out overleaf. We have also identified some opportunities for improvement.



# Key recommendation



## Governance

<b>01 Recommendation</b>	The pensions administration transformation programme should continue to be implemented by the Council, to ensure this team moves to a 'business as usual' operation and the backlog of pensions administration work is cleared.
<b>Why/impact</b>	There remained a significant backlog of pension administration work in 2020/21. This could result in action from the pensions regulator and there could be reputational damage to the Council.
<b>Auditor judgement</b>	The operations of the pensions administration system has been sub-optimal for several years. The administration function has been contracted to provide services to other authorities. There needs to be a focus to ensure the improvement opportunities identified by the transformation project are implemented.
<b>Summary findings</b>	The pensions administration function over the Surrey Fire and Rescue Service has received only "minimal" assurance from internal audit. A significant number of recommendations made to improve the control environment had not been implemented in the year. The pensions administration function over the Surrey County Council pension scheme received only partial assurance from internal audit having received minimal assurance for the previous two years.
<b>Management Comments</b>	As part of the Pensions Turnaround Programme the following activities have been progressed: All contracts with external customers were terminated between April 2021 and January 2022 (i.e. London Boroughs and Surrey Fire & Rescue Service) The scope of the programme encompasses the entire service, creating an integrated team, including Investment & Stewardship, Accounting & Governance and Administration The new integrated structure, which was independently validated by Aon, will go live on 1st May 2022.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

### 01 Recommendation Continued from page 16

#### Management Comments

An action plan has been agreed with Internal Audit to hit the CIPFA KPIs, in the priorities that were set by The Pensions Regulator. (Work has commenced, all milestones are being met and the backlog is being addressed)  
The integrated Pensions team has been working collaboratively with Internal Audit to further assess the control framework and any necessary actions will be implemented in 2022.



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

<b>02 Recommendation</b>	There should continue to focus on the implementation of the children's services improvement plan. Work must continue to highlight the traits of a good service with an ongoing gap analysis of the performance of Surrey against these traits.
<b>Why/impact</b>	Any system failure in children's services is likely to have a devastating impact, both to the service user and to the Council staff involved as well as to the reputation of the Council.
<b>Auditor judgement</b>	As an Ofsted inspection is expected within the 2021/22 year, the Council must continue to focus on providing a service which meets the needs of its clients and will demonstrate that the improvements in the plan have been implemented.
<b>Summary findings</b>	An Ofsted 'inadequate' rating remains in place for children's services. An inspection in 2018 found "too many vulnerable children were left exposed to harm for too long".
<b>Management Comments</b>	<p>The Getting to Good plan (i.e. the next iteration of the children's improvement plan) was developed in late-2020 and incorporates the learning from previous inspections, peer reviews, feedback from children and families and the significant amount of quality assurance work. Effective Family Resilience is an entirely new practice model and therefore a more ambitious and innovative improvement plan was required to 'Get us to Good'.</p> <p>Our improvement work and Family Resilience Transformation Programme continued throughout 2021 and we have been giving particular focus to Neglect and Children with Disabilities (CWD).</p>



The range of recommendations that external auditors can make is explained in Appendix C.

# Key recommendation



## Governance

### 02 Recommendation Continued from page 18

#### Management Comments

The continued implementation of our Family Safeguarding Model for children in need of help and protection is a key part of shifting our services to a model of earlier intervention and we are also maintaining a relentless focus on our workforce to ensure that children and families are supported by skilled and experienced practitioners.

In January 2022 Ofsted carried out a full 'Inspection of Local Authority Children's Services' (ILACS) in Surrey and the report is due to be published in March 2022. At this stage, the findings are confidential – it was a comprehensive inspection and we will continue to build on previous improvements to ensure children and families benefit from good and outstanding services in Surrey.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Governance

**Recommendation** The Council should continue to see through its plans to establish a robust system of risk identification, assessment and monitoring, ensuring that this covers all services and directorates and is reviewed and updated at least annually. This will include the tailoring of the risk management strategy to the organisation.

**Why/impact** Without a robust system to identify, assess and monitor risks, the Council could expose itself to potential financial loss, service failure and/or reputational damage.

**Auditor judgement** There is a risk that decisions are taken without reflecting on potential risks. Decisions could be taken based on inadequate or incomplete information if risk assessment is excluded from the decision making process.

**Summary findings** The Council did not have a risk assessment system in place during the year. Whilst they identified this to be a problem and engaged consultants as 'risk partners', during the 2020/21 year there were no risk registers in place.

**Management Comments** The Council had already implemented a series of improvements in this area that are in place and will be maintained moving forward:

- Risk Manager role in place March 2021
- Risk Management strategy and framework established which includes the overall SCC processes for risk identification, assessment and monitoring. It was approved both by Corporate leadership team, Audit and Governance Committee and Cabinet (September 2021).
- Risk Registers established for all Council Directorates. Also, Risk Registers in place for the cross cutting Services delivered by the Resources Directorate
- Corporate Risk Register established
- Over 90 1-2-1s completed (with risk manager and individual managers) to help develop risk understanding and improve decision making



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Governance

**Recommendation** Whilst interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.

**Why/impact** Having to check each member separately is piecemeal and makes it difficult to confirm the overall complexion of interests held.

**Auditor judgement** It is not immediately apparent if there are a number of interests or similar interests held by any particular committee or political grouping.

**Summary findings** A full register of members interests is not available online as a single document. Transparency could be improved by making this information available in a single place online.

**Management comment**

- The Council uses a system for registering Members' interests that enables an individual to look at the membership of a committee and see the interests declared for members of that committee. This system is widely used by other local authorities and is a live system that enables Members to update records themselves to ensure that information contained within individual registers is up to date therefore the Council is satisfied that the arrangements that are in place are adequate.
- We recognise that it is an individual Councillor's responsibility to declare any interests that they have and to update their individual ROI record. It is a criminal offence if they do not declare an interest both on their register and in a meeting and Members are sent reminders to ensure that their ROI record is kept up to date.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Performance review, monitoring and assessment

The Council's organisation strategy was refreshed during the year. This sets out the four key 'priority objectives' of

- Growing a sustainable economy so everyone can benefit
- Tackling health inequality
- Enabling a greener future and
- Empowering communities

These four objectives are high profile and referred to throughout most of the key strategic documents and reports presented to members, including the budget and MTFS. Work has been ongoing during 2020/21 to consider how to improve performance monitoring and how to link this to the priority objectives. Internal reporting within the authority is good and monthly performance reports are considered by the Corporate Leadership Team (CLT). These are focused on operational performance management using local performance metrics developed at a service / directorate level. As such, the level of detail and data used varies. For example, the number of indices used to report on Adult Social Care outweighs those for other directorates, though we acknowledge that it does represent around 40% of the Council's total spend.

This directorate / service information is reported to each relevant committee. However, performance reporting of this data was not formally presented to Cabinet during the year. We understand a review of the arrangements for reporting to CLT and Cabinet is underway and this is looking to package performance reporting against a strategic outcomes framework. This should include regular formalised reporting of performance against a set of agreed key performance indicators. These should be aligned with the Council's priority objectives.

The Council was already aware of these issues and working to address them, including, we understand, the development of an outcomes framework. This has been identified by the Council as being necessary as business planning has thus far been directorate based. We have seen that this has resulted in performance reporting against directorate objectives with directorate-developed performance indicators which have missed the cross cutting nature of the Council's priority objectives. The initial 'informal' report on this to Cabinet presented in 2021/22 sets out transformation efficiencies (savings) achieved. It has a limited number of KPIs and these are not directly linked to the corporate aims. There is scope to improve this report by considering the creation of a suite of KPIs related to service delivery which are linked to the Council's four key Corporate Objectives.

This (draft) outcomes framework should be formally agreed and implemented and consideration given as to how this can be embedded across the Council. We have identified some improvement recommendations on this.

The Council has an ambitious capital strategy with a five-year capital investment programme totalling £1.9bn. Each of the major programmes within this programme is overseen by a contract manager with responsibility for day to day management and oversight of the project. The overall capital programme is agreed by Cabinet on an annual basis and any major amendments to this programme. However, this capital strategy does not explicitly tie back to the Council's corporate strategic priorities set out in its organisational strategy, and we have recommended these are more explicitly aligned.

# Improving economy, efficiency and effectiveness

## Benchmarking and evaluation

There are many examples of the Council working with other local government organisations to identify opportunities to improve service delivery. As well as being part of a County Council collaboration group, following the Children's Services Improvement plan the Council is now working with Essex County Council as a Partner in Practice (PiP). There is a positive approach within the leadership team towards peer review and challenge, which was also seen when the Council formed an External Assurance Panel which focused on the Council's Financial Improvement Plan.

However, the reporting of benchmarking data has not yet been formalised, though the Council has been working through its improvement plans. There has been a review in 2021/22 considering what benchmarking data might be useful. The report on this review refers to an annual exercise to review benchmarks in use, but says this was delayed in 2020/21 owing to COVID. Some benchmarking information is included in reports to members which sets the Council against other SE authorities and in some cases against the England average, but this falls short of using benchmarking as an opportunity to identify areas for improvement. It is not clear from the benchmarking data currently being used whether or how the Council are influencing or impacting on these data. As a result, it is not clear why they are being used as benchmarks other than to provide good local intelligence.

Also, the benchmarking statistics used do not align with the Council's Corporate Priorities. We have identified some improvement opportunities here.

## Partnership working and engaging with stakeholders

Partnership working is a key theme running through the Organisation Strategy and working with partners is mentioned throughout. In reading the plan, the aims and aspirations are clear. However, there are not really examples of how this is being achieved and what is being done by partners within this document.

There are three strategic partnership boards which are formally constituted. These are the Surrey Growth Board, the Strategic Health and Wellbeing Board and a new Greener Futures Board. These align to the priority objectives. A fourth Board, to align to the Empowering Communities target, is in the process of being constituted.

These boards contain a mixture of members and representatives from across Surrey, including business leaders, university representatives and health partners. The Leader of the Council chairs each of these boards, and as such, the Council has an insight into the work being delivered by the Council in partnership with other bodies. Whilst there is not a formalised reporting schedule from these Boards, there is ongoing reporting to select committees on request.

In addition, the Council works with some 600 VCFS bodies. As well as commissioning these bodies to work with residents and other bodies, the Council also provides funding to support the VCFS infrastructure locally. We have identified an opportunity to further support officers working with the VCFS on this.



# Improving economy, efficiency and effectiveness

The Leader and Chief Executive held virtual resident roadshows in December to share details about the budget and listen to residents about their priorities. The Council also engaged with residents and local partners such as Districts and Borough Councils, Health, Police and the voluntary, community and faith sector (VCFS) organisations to discuss the draft budget. An online budget survey for residents was also conducted which asked for their views on whether the Council should maintain, increase, or decrease budgets across a range of service areas. This demonstrates a good level of external engagement.

During the year, the Council additionally carried out an extensive consultation exercise which saw participation from over 2,000 residents. This gave the Council a good understanding of residents' priorities in terms of the Council's response to, and rebuilding after COVID. However, this community impact assessment does not set what actions the Council have taken in response to these views. We have identified an improvement recommendation here.

## Procurement

There are procurement and contract standing orders within the constitution (this is where you are directed on the website if a supplier or potential supplier looking for the procurement strategy).

There is also an ethical procurement statement and a supplier code of conduct. Potentially these two documents could be merged. The ethical procurement statement mainly sets out the Nolan principles. The supplier code of conduct appears to contain the expected elements of an ethical procurement strategy, covering slavery, exploitation, safe working conditions, compliance with taxation and other legislation, and operating sustainably and considering environmental impact.

However, both these are short documents with brief aspirations set out. These do not include targets, measurable standards or expectations, although the Supplier Code of Conduct does say "...where relevant key performance indicators are agreed in relation to specific contracts (and) we will monitor trends. On an annual basis, we will invite a small number of suppliers to share good practice and case studies, and identify initiatives for continuous improvement" These could be more explicit and linkages made with the Corporate Strategy.

The council spends approximately £900 million per annum on third party goods and services. Each procurement project that is run by the council is assessed for project complexity and contract management. All projects over the Public Contract Regulation (PCR) threshold are included on the Procurement Annual Forward Plan, which is approved annually by Cabinet.

All Procurement projects undergo two internal governance checks in addition to the PCR regulation report. The first check is undertaken prior to any approach to the external market to validate the approach and procurement process, the second and final check is completed prior to any award decisions being undertaken, which includes, as a minimum, sign offs from the stakeholder, legal and finance. Social value and financial value for money are of key importance and are taken into account when awarding contracts as part of the procurement process.

## Conclusion

**Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified some opportunities for improvement, set out below.**

# Improvement recommendation



## Improving economy, efficiency and effectiveness

<b>Recommendation</b>	There should be regular, formalised reporting to Cabinet of performance information. This should use a set of agreed key performance indicators and ideally reporting should be RAG rated. These indicators should align with the Council's priority objectives.
<b>Why/impact</b>	We understand an outcomes framework is in the process of being developed. This has been identified by the Council as being necessary as business planning has thus far been directorate based. We have seen that this has resulted in performance reporting against directorate objectives with directorate-developed performance indicators which have missed the cross cutting nature of the Council's priority objectives. The initial 'informal' report on this to Cabinet presented in 2021/22 sets out transformation efficiencies (savings) achieved. It has a limited number of KPIs and these are not directly linked to the corporate aims. There is scope to improve this report by considering the creation of a suite of KPIs related to service delivery which are linked to the Council's four key Corporate Objectives.
<b>Auditor judgement</b>	The Council is seeking to improve the quality of data that it uses to assess its performance and to identify areas for improvement. Such opportunities may be missed if the outcomes framework is not developed appropriately.
<b>Summary findings</b>	We understand a review is currently underway considering this and how to focus reporting on <u>outcomes</u> is a focus of this review.
<b>Management comment</b>	SCC is reviewing the corporate business planning and performance framework to reinforce the focus on the Council's strategic priorities and KPIs will be aligned to the outcomes. Performance reporting will include both operational and strategic performance metrics, which will be available to members and senior leaders. Alongside this SCC is building a network of comparator authorities to enable closer working, data sharing and promoting best practice.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

**Recommendation** The draft performance outcomes framework should be finalised and used as the basis for a framework against which to report key performance indicators. To help embed this outcomes framework across the organisation, consideration should be given to including references to this in officers' performance reviews.

**Why/impact** Whilst operational performance at a directorate level is monitored, there is currently a gap and strategic outcomes and performance have not been subject to regular member scrutiny. Whilst staff are likely to be aware of the Council's priority objectives, it is not necessarily clear how their work or role relates to the achievement of these objectives.

**Auditor judgement** There is not a clear view of the oversight from members of the delivery of and performance against the Council's key priority objectives. It is not clear how the Council intends to influence or achieve the outcomes set out in the organisation strategy.

**Summary findings** There has not been a system of formalised reporting of performance information to members which is aligned to the Council's corporate priorities.

**Management comment** Incorporated into Management comment on Page 25.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

**Recommendation** Consideration should be given to how benchmarking costs and performance against similar authorities could improve decision making. Benchmarking data is used as a tool at an operational level but there is scope to improve the data used in the formative benchmarking report to members.

**Why/impact** Use of benchmarking data as a tool to identify improvement opportunities could be missed. The Council could overly focus on reporting against internal benchmarks and not consider the wider picture across other county councils/nationally.

**Auditor judgement** Currently, the benchmarking information provided to members does not show what the Council have done to contribute to the indicators being measured. It would be more useful to know what SCC are doing to influence these statistics.

**Summary findings** There was not a formalised routine of reporting benchmarking data to TCWG during the 2020/21 year.

**Management comment** Incorporated into Management comment on Page 25.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

**Recommendation** All those charged with the management and monitoring of contracts with the voluntary, community and faith sector (VCFS) should be offered annual training regarding best practice in managing these relationships. This should include establishing and monitoring KPIs for service providers in this sector.

**Why/impact** This would provide an opportunity to knowledge share and to share best practices. This should also ensure contract managers are provided with an opportunity to consider whether their contract monitoring could be improved.

**Auditor judgement** It is not clear whether there is a consistency in contract monitoring and management across the VCFS. There is a risk that examples of weak contract management or poor relationships are not identified and acted upon.

**Summary findings** Officers charged with contract monitoring and management tend to operate within their own silos. Networking and knowledge sharing could be improved.

**Management comment** The Council has an 'Introduction to contract management' training module available through its LD management platform (Olive). There is also a robust contract management framework which is embedded in the PSOs which form part of the Council's constitution. The Council has a contract community Jive page which is updated daily with content from World Commerce & Contracting and currently has over 200 members.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



Improving economy, efficiency and effectiveness

**Recommendation** Continued from page 28

**Management comment**

Additionally:

- Our current training for commissioners (who often manage contracts with VCFS) includes guiding principles for design, delivery and monitoring of service contracts. There are also resources available on the internal Jive commissioning community and Jive contract management community, as well as work underway in the rebranded Contract & Commercial Advisory Team to develop more robust process, guidance and support for contract managers.
- Developing a more centralised governance structure for management and assurance of middle tier contracts across the organisation has also been developed as a first stage outline business case as part of our current transformation programme (A Twin Track opportunity) and is waiting finalisation, approval and resourcing.
- We have also recently developed a shared service specification template and guidance that will provide consistency on approach to contract management, with clear definitions and suggested frameworks for inputs, outputs, outcomes and benefit management.
- The Social Value programme team has also been supporting contracts across the council, specifically with VCFS market engagement, both pre-market and with existing providers and those on framework agreements.
- We have developed a broader draft proposal for building capacity of VCFS through commissioning and the empowering community programme. This is awaiting further development and resourcing agreements.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

<b>Recommendation</b>	The Council should publish an update to the Community Impact Assessment which sets out the work the Council have done in response to residents' concerns (these were mainly focused on supporting local businesses and vulnerable residents).
<b>Why/impact</b>	The Community Impact Assessment was published but there is no information for residents to understand the actions which have been taken since their concerns were raised.
<b>Auditor judgement</b>	The Community Impact Assessment, as a stand alone document, does not demonstrate whether the Council have responded to the concerns raised.
<b>Summary findings</b>	The Community Impact Assessment does not set out what the Council have done in response to concerns raised, not does it highlight the outcomes have been achieved.
<b>Management comment</b>	The Council is committed to continuing support for businesses and individuals affected by the pandemic but, given the significant changes to the current situation since December 2020, revisiting the CIA line-by-line does not represent the best value for money at present. A strategic response was included the <i>SURREY COUNTY COUNCIL STRATEGY AND DELIVERY - 2021 AND BEYOND</i> Report to Cabinet in June 2021:

[Strategy and delivery 2021- Final Report.pdf \[surreycc.gov.uk\]](#)



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

<b>Recommendation</b>	The Supplier Code of Conduct could incorporate specific targets/requirements in terms of compliance with the Council's social values and ethical procurement standards. The Council could then consider the development of mechanisms to measure whether and how suppliers are meeting these goals.
<b>Why/impact</b>	By defining social value in its strategies, the Council would be better placed to measure the performance of suppliers against these aspirations.
<b>Auditor judgement</b>	It would be helpful to suppliers if measurement mechanisms are explicitly set out in the procurement strategy (or in the social value and ethical procurement strategy referred to within and so captured as part of the procurement strategy). This would enable potential bidders to understand the Council's expectations in terms of social value.
<b>Summary findings</b>	Whilst the Council's procurement strategy sets out the Council's aims and objectives, it is not explicit as to what suppliers need to do to meet the Council's criteria for social value.
<b>Management comment</b>	The Council's targets for Social Value and Ethical procurement are delivered through contractual arrangement based on the tender approach to specific markets. The Council will consider improvements to the code around reporting metrics.



The range of recommendations that external auditors can make is explained in Appendix C.

# COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

## Financial sustainability

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of Council Tax and Business Rates, and expenditure which has seen additional pressures, most notably on adult social care.

The COVID-19 related overspend by the Council was £137m. This overspend has been offset by emergency funding from the Ministry of Housing, Communities and Local Government (MHCLG) and corresponding COVID-19 related underspends in the General Fund.

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The MTFS was reviewed and updated during the year, and monthly reporting against the budget to Cabinet was re-established by Month 2.

Cash flow was additionally reported to the Cabinet Member for Finance, as a risk had been identified around Districts and Boroughs providing their expected share of Council Tax and Business Rates. Actual collection rates were stronger than anticipated under the worst case scenario, but the identification and reporting of this risk was good.

£6m of the COVID-19 funding (combination of ring-fenced and non-ringfenced) received has been transferred to reserves to address any unbudgeted additional costs of COVID-19 in 2021/22.

Despite this 'cushion', the Council expects these financial pressures to be ongoing. Whilst it has set a balanced budget for 2021/22, with savings and efficiencies built in, the Council will undoubtedly need to maintain a high level of monitoring and scrutiny over its finances in order to achieve this budget.

## Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced in March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

All committees have maintained a keen interest in the Council's response to the pandemic.

Internal audit have acted in an advisory capacity throughout, where processes and systems have had to adapt to changed circumstances. Internal audit also demonstrated it can offer a responsive service, adapting its annual plan to accommodate new reviews as required as a result of changed circumstances.

Despite this, internal audit still completed 25 audits in the year and a further 11 reports were produced on systems which had been adapted in response to new COVID working arrangements. Additional, unplanned audits were carried out on COVID grant payments. There has been a solid acceptance and implementation of prior year internal audit recommendations based on the follow up reviews carried out. Internal audit did not identify any serious weaknesses in internal controls as a result of COVID adaptations over the course of the year.

We noted that budget holders did not routinely 'sign up' to their budget envelopes in 2020/21 owing to the impact of the pandemic on budgets. We understand that budget holders were reluctant to be held accountable where there was a risk of an overspend, and the signing up process had been due to occur before additional government funding levels were known.

This should be a one-off and not an indication of a lack of ongoing accountability.

# COVID-19 arrangements

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

## Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to support staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

The Council has only just introduced reporting of performance against targets. Going forward, improvements in this reporting should enable those charged with governance to understand which of the Council's activities have been most impacted by COVID and the extent of this impact.

Partnership working is a key theme of the Organisation Strategy, and work with community partners increased during the pandemic. This is set out in the reporting to those charged with governance. The Council has been working closely to maximise support to communities and has given grants to support the pandemic response and recovery. Over the year, the Council, in partnership with the Community Foundation for Surrey, has provided support to an additional 225 organisations offering specific frontline support during the pandemic.

## Conclusion

**Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic. We have identified an improvement recommendation, which is set out overleaf.**



# Improvement recommendation



## Covid-19 arrangements

**Recommendation** All budget holders should sign up to the agreement of their budget “envelope” for the year ahead.

**Why/impact** Whilst we understand 2020/21 was an unusual year, the accountability and responsibility of budget holders is key to ongoing improved financial performance at the Council.

**Auditor judgement** The Council should impress upon budget holders the importance that is placed on individual accountability and ensure this signing up process should always be prioritised once budgets have been agreed.

**Summary findings** Not all budget holders signed up to agree their ‘budget envelopes’ during the year.

**Management comment** The importance of budget accountability and the Budget Accountability Statements is acknowledged across the organisation. The decision not to pursue the BAS for 2020/21 (considering the impact of Covid-19 causing budgets to be volatile) was not taken lightly and reflected the unique circumstances of the pandemic. The BAS for 2021/22 were issued in advance of the financial year and to-date have a 93% response rate, including Executive Director response covering 100% of the budget. The Council is committed to pursuing a 100% response rate on BAS and this is included as a Key Performance Indicator for the Resources Directorate.



The range of recommendations that external auditors can make is explained in Appendix C.

# Opinion on the financial statements



## Audit opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 30 November 2021. We also issued an unqualified audit opinion on the Surrey Pension Fund accounts on the same date.

## Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

## Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit & Governance Committee on 29 November 2021.

## Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 20/21 Audit Findings Report, Appendix C.

## Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and on the whole the supporting working papers continue to be of a good standard.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.





# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

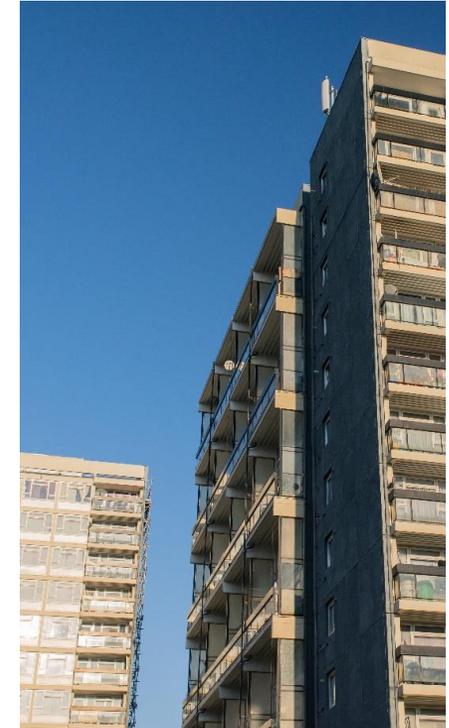
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
The ongoing issues around the PFI contract and the long-standing issue in that the PFI element has failed to deliver.	Considered the reports submitted to TCWG on this area and discussed the ongoing management of this contract with senior officers. We also considered the VFM implications of this contract and reviewed the plans the Council have put in place to manage the remaining contract term.	Whilst there may be a risk of reputational damage to the Council we do not consider this to represent a significant weakness. The Council is managing this contract well, and, as we would expect, is working with expert advisors.	Appropriate arrangements in place no further action taken.
Children's services received an inadequate rating from Ofsted. Whilst there may have been improvements, as Ofsted have not been able to revisit owing to the pandemic, this rating remains in place	VFM considered the improvement programme in place for children's services and the scrutiny over this plan year.  Ofsted monitoring reports carried out in year were reviewed.	Improvements have been noted, but parts of the service are not yet there. The improvement plan is given due scrutiny and qualitative as well as quantitative reviews of the work of Children's services are undertaken monthly.  However, as this rating remains in place, and as improvements are still noted as required, this does meet the criteria of a significant weakness under the new VFM code.	A key recommendation has been raised.

# Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	16-18
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	FS 10-12 Governance 19-22 3Es 26-33

