

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- had been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- had been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

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

Basis for adverse conclusion

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

Children's Services

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

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated

in the report that “Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken”.

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

Sustainable resource deployment

The Authority is drawing heavily on its reserves to balance its annual budgets and cannot set a sustainable budget with sufficient capacity to absorb emerging cost pressures with its current levels of income and funding.

The Authority used £11 million of its usable reserves to balance its budget in 2017/18 and, at 31 March 2018 usable reserves, stood at £102 million. The Authority managed its financial position in year by implementing short term spending cuts, which allowed it to deliver a £1.3 million underspend for the year against budget.

The Authority engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function. CIPFA reported in July 2018 that the Authority will not have sufficient reserves to meet its expected budget gap in 2019/20 unless it acts now. The report also stated that unexpected increases in demand and a failure to deliver a significant proportion of the planned savings in 2017/18 undermined the credibility of the financial estimates reported in-year and necessitated short term spending cuts that can adversely impact on services.

The Authority’s current medium term financial plan for 2018 to 2021 requires it to deliver £250 million of savings over three years, with £66 million required in 2018/19. The Council also plans to use a further £21 million of reserves to balance the budget. The CIPFA report highlighted a lack of granularity in some of the estimated pressures and changes facing the Authority, and considerable uncertainties over the delivery of a number of the planned savings.

These matters are evidence of weaknesses in proper arrangements for securing sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until:

- we had completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources;
- we had given an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts; and
- we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

We have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts has now been issued.

We have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

No matters have come to our attention since 31 July 2018 that would have a material impact on the financial statements on which we gave an unqualified opinion and no matters have come to our attention since we gave our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources on 28 September 2018.

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

Ciaran McLaughlin

Ciaran McLaughlin
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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26 November 2018