



**Audit & Governance Committee  
25 July 2016**

**Statement of Accounts 2015/16**

**Purpose of the report:**

To inform the Committee of the result of the external audit of the council's 2015/16 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Director of Finance.

**Recommendations:**

It is recommended that the Committee:

1. Approve the 2015/16 Statement of Accounts , as attached in Annex A, for publication on the council's website and in a limited number of hard copies;
2. Consider the contents of the 2015/16 Audit Findings Report in Annex B;
3. Agree the officer response to recommendations of the external auditor;
4. Note the Director of Finance's letter of representation, which is attached in Annex C;
5. Determine if any issues in the Audit Findings Report should be referred to the cabinet.

**Introduction:**

6. The Director of Finance has approved the statement of accounts for 2015/16 as presenting a true and fair view of the county council's financial position as at the 31 March 2016 and its income and expenditure for the year. The accounts are attached at Annex A to this report for Member debate and approval.
7. The auditor has provided a commentary and recommendations on the statement of accounts in their Audit Findings Report (attached as Annex B).
8. The auditor anticipates issuing an unqualified opinion on the financial statements.

9. The Value for Money opinion has been qualified on an 'except for' basis. The auditor has stated the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources but has issued a qualification based on the issues highlighted in the Ofsted report on Children's Services in June 2015.

<b>The Statement of Accounts 2015/16</b>
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10. The Local Audit and Accountability Act 2014 require the statement of accounts for 2015/16 to be published by 30 September, and that they are approved, prior to this date, by a non-executive committee of the local authority.
11. The presentation of these audited accounts to this Committee by the end of July, well in advance of the statutory deadline, represents a significant achievement for the Finance Service. It is the third year in a row the accounts have been presented by the end of July.
12. Under the Act it will be a requirement for local authorities to produce audited accounts by the end of July from 2017/18 onwards. This demonstrates that the council is well prepared to meet the new statutory requirements. It is the result of a number of years of continuous improvements in relation to the production of the Statement of Accounts and a strong working relationship with Grant Thornton, our external auditors. It also means that the financial information in the Annual Report for 2015/16 is based on the audited financial accounts for the third year in a row.
13. The Director of Finance is responsible for the preparation of Surrey County Council's single entity statement of accounts, the Surrey County Council group accounts, the pension fund statement of accounts and the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code).
14. The Code is a very prescriptive document, and determines not only the accounting policies to follow, but also the form and content of the statement of accounts. The Code is based on International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board. Local authorities have a legal obligation to follow "proper accounting practice", this therefore means that compliance is mandatory.
15. In addition to the Code, the Service Reporting Code of Practice (SERCOP) prescribes the format and composition for reporting service income and expenditure in the Comprehensive Income and Expenditure Statement. This is designed to allow comparison of service expenditure and income between authorities.
16. Any significant departure from The Code or SERCOP will normally result in a qualified audit opinion.
17. Annex A presents the 2015/16 Statement of Accounts. Draft accounts were produced and presented for audit by the first week of June 2016. Since then two amendments have been made as detailed below. These changes do not alter the Council's budget outturn position that was

approved by the Cabinet in May and its reserves and balances remain as previously reported.

- Group accounts - 2014/15 comparators. An amount of £55.6m was reclassified on the comprehensive income and expenditure statement on the single entity accounts from 'Education & Children's Services' to 'Financing & Investment Income & Expenditure' as a result of a change in accounting policy for the impairment of schools converting to academy status. This correction was inadvertently missed in the group financial statements and has now been corrected. The change has no net impact on the reported financial performance and position of the group and was correctly accounted for in the single entity accounts.
  - Note 12 – Property, Plant and Equipment. An amount of £1.6m has been transferred from 'Land & buildings – other movements' to 'Depreciation – other movements' in respect of a school that was incorrectly moved from assets under construction to operational assets during the year. There is no impact on the financial statements and this is a disclosure issue only.
18. In addition, a number of small amendments for typographical errors and rounding differences were made and additional narrative has been added for clarification purposes.

### 2015/16 Audit Findings

19. The Audit Findings Report summarises the findings of the 2015/16 audit, which is now nearing completion. It includes the messages arising from the audit of the statement of accounts and the results of the external auditor's work undertaken to assess the council's arrangements to secure value for money in the use of resources.
20. The external auditor's 2015/16 report is presented in Annex B and sets out a summary of the work carried out during the audit of the accounts, the conclusions reached and recommendations.
21. At the beginning of the audit the auditors produce an audit plan, which was reported to this Committee in February 2016. The audit plan identified areas of significant risk of material misstatement. The audit findings report summarises the work completed in relation to this risk areas. The audit work undertaken has not identified any issues in respect of these areas.
22. The auditors also consider internal controls as part of their work. They have walked through the processes for employee remuneration, property, plant & equipment, and operational expenditure and have not found any control weaknesses in these areas.
23. They have also separately considered IT controls in the context of moving from a wholly substantive audit approach, as performed in the 2015/16 audit, towards a more controls based audit approach in the

future. As part of this they have identified a small number of areas where IT controls could be improved to ensure they can place reliance on those controls in the future to reduce substantive testing. These have been highlighted in the audit findings report to give them visibility and enable officers to plan actions for improvements before next year's audit. The risks associated with the perceived control weaknesses did not materialise during the 2015/16 audit process.

24. The audit fee is in line with the planned fees and there was no unplanned work required.
25. The auditor is issuing an unqualified opinion on the financial statements. For the Value for Money opinion, the auditor states the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016, but based on the Ofsted inspection report of Children's Services from June 2015 has to include a qualification on an 'except for' basis to this opinion. As Ofsted has yet to publish a subsequent inspection report, the judgement from June 2015 remains extant and the qualification on the value for money opinion remains the same as last year.
26. There are a small number of items still to be signed off by the auditors before the final opinion can be issued.

#### **Conclusions:**

27. Following the changes included above, and the results of the audit, the accounts are now presented to this Committee for approval.

#### **Financial and value for money implications**

28. There are no direct financial implications of this report, all financial implications in the accounts have been made in line with the Code of Practice and any impact on the 2015/2016 budget has been considered in the outturn report to the Cabinet.

#### **Equalities and Diversity Implications**

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

#### **Risk Management Implications**

30. There are no direct risk management implications of this report.

#### **Next steps:**

31. The statements of accounts will be published in line with the statutory deadline. The only changes made to the published version will be presentational, with the accounts typeset into a booklet style. A version of the statements will also be posted on the council's website, and again some of the formatting may change to ensure it complies with the council's accessibility standards.

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**Sources/background papers:**

Financial Outturn 2015/16 – Report to Cabinet 26 April 2016.

The Code of Practice on Local Authority Accounting in the United Kingdom  
2015/16 CIPFA

Service Expenditure Reporting Code of Practice 2015/16 - CIPFA

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