

The Audit Findings for Surrey County Council

Year ended 31 March 2016

July 2016

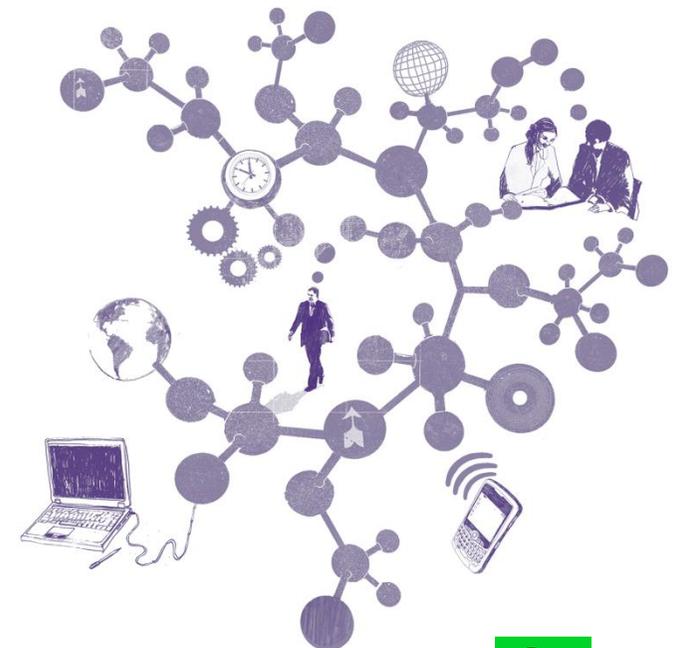
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July 2016

Dear Sirs

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Audit Findings for Surrey County Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Surrey County Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours faithfully

Andy Mack, for and on behalf of Grant Thornton UK LLP

Chartered Accountants

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Section 1: Executive summary

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01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Surrey County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 22 February 2016.

As at 12 July our audit is nearing completion although we are finalising our procedures in a small number of areas:

Information to support audit testing:

- Sample information relating to short term investments and creditors
- Sample testing relating to grants revenues, non-grant revenues, operating expenditure and post year-end invoices

Procedures to be performed as part of audit closing procedures once above matters resolved:

- review of the final version of the financial statements
- obtaining and reviewing the signed management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts (WGA)

Note that the review of the Council's WGA return has yet to be completed primarily as a result of delays to production of the template by central government that are outside of the Council's control.

We will update members of the Audit and Governance Committee should any matters requiring your attention be identified from our remaining audit work.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

The key messages arising from our audit of the Group and Council's financial statements are that the Council:

- produced draft financial statements and working papers to a good standard
- successfully prepared group accounts to include each of S. E. Business Services Limited, Surrey Choices Limited and (for the first time) Halsey Garton Property Limited
- worked effectively with our audit team to ensure a smooth and efficient audit.

Currently, we have identified no adjustments affecting the Group and Council's reported financial position. The draft financial statements for the year ended 31 March 2015 recorded net expenditure of £952,010k and the audited financial statements are currently expected to show the same figure.

We have recommended a number of minor adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have nothing to report in these respects.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

(i) Areas that impacted our audit approach

We have walked through the internal controls for Employee Remuneration, Property, Plant & Equipment and Operating Expenses. As disclosed on pages 12 and 17, we have identified no internal control deficiencies in these areas.

(ii) Looking forward

We have also walked through internal IT controls at the Council. This has identified a small number of control issues in relation to the SAP general ledger system. Note that the risks associated with these findings did not materialise during the audit and we are communicating these observations to you as areas for possible improvement. As a result of these observations we did not have to alter our audit approach. Full details are provided on pages 17 to 19 of this report.

Value for Money

The Council continues to demonstrate strong arrangements for the management of its resources. Despite unprecedented external challenges, it has successfully balanced budgets and achieved financial targets. Following the most recent Government settlement, the position appears even more difficult going forwards, and officers and members are considering a range of options to ensure the Council is able to maintain a sustainable position up to 2020/21. Difficult decisions may be required in terms of service delivery.

In 2014/15 we issued a qualified conclusion in respect of the Ofsted inspection on Children's Services. The Council is working hard to address the issues raised by Ofsted. Until such time as Ofsted confirm it is satisfied with progress, the qualification remains in place.

Further detail of our work on Value for Money are set out in section three of this Report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
July 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £27,787k (being 1.5% of prior year audited gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,389k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of related party transactions in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.



Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>We rebutted this presumption during the interim phase of the audit and communicated this to you in our Audit Plan. We have not had reason to amend this judgement during the remainder of the audit.</p>	<p>Subject to completion of our procedures as outlined on page 5, our audit work has not identified any material issues in respect of revenue recognition.</p> <p>We will update the Audit and Governance Committee with the outcome of our work.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Testing of journal entries • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements Procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends where appropriate Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work has not identified any material issues in respect of the risk identified.</p>
4.	<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessment of whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. Procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any material issues in respect of the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over payroll expenditure Review of the year-end reconciliation of your payroll system to the general ledger Trend analysis of the monthly payroll runs from during the year Testing of post-year end payments 	Our audit work has not identified any material issues in respect of the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over operating expenditure Review of the year-end reconciliation of your accounts payable system to the general ledger Testing of year-end creditors and accruals Testing of post-year end payments 	<p>Subject to completion of our procedures as outlined on page 5, our audit work has not identified any material issues in respect of the risk identified.</p> <p>We will update the Audit and Governance Committee with the outcome of our work.</p> <p>We experienced some difficulties in obtaining audit trails for creditors and debtors balances. This is because the debtor and creditor ledgers contain uncleared balances dating back to 2004 and so sample selection was more time consuming due to inclusion of items not relating to the year-end balances. We are aware that management has a solution planned for implementation.</p> <p>We have raised a recommendation to management on this issue at Appendix A.</p>
Property, plant and equipment	Property, plant and equipment activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over property, plant and equipment Review of the reconciliation of your fixed assets register to the general ledger Testing of a sample of additions and disposals Testing of the depreciation charge for the year 	Our audit work has not identified any material issues in respect of the risk identified.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
S. E. Business Services Limited	No	Targeted	None	High level analytical review.	Our audit work has not identified any issues in respect of the risk identified.
Surrey Choices Limited	No	Targeted	None	High level analytical review.	Our audit work has not identified any issues in respect of the risk identified.
Halsey Garton Property Limited	No	Targeted	None	High level analytical review.	Our audit work has not identified any issues in respect of the risk identified.

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Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

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Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: <ul style="list-style-type: none"> (i) The Council will comply with the conditions attached to the payments; and (ii) The grants or contributions will be received. 	<ul style="list-style-type: none"> The accounting policies are adequately disclosed in line with the requirements of the Code Our testing of government grants and contributions has not identified any instances of improper revenue recognition. 	<p style="text-align: center;"></p> <p style="text-align: center;">(Green)</p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>
<p>Judgements and estimates</p>	<p>Critical judgements include:</p> <ul style="list-style-type: none"> Recognition of grants and contributions Accounting treatment of the Council's PFI schemes Whether group accounts should be prepared <p>Key estimates include:</p> <ul style="list-style-type: none"> The useful lives of property, plant & equipment Provisions Pensions liability Provision for the impairment of receivables 	<ul style="list-style-type: none"> Critical judgements and estimation uncertainties are disclosed in notes 3 and 4 of the financial statements and are in line with the requirements of the Code. Whilst the Council's companies are numerically immaterial to the financial statements, the Council has still prepared group accounts this year. 	<p style="text-align: center;"></p> <p style="text-align: center;">(Green)</p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>

Assessment

-  (Red) Marginal accounting policy which could potentially attract attention from regulators
-  (Amber) Accounting policy appropriate but scope for improved disclosure
-  (Green) Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance, s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 (Green) Accounting policy appropriate and disclosures sufficient
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 (Green) Accounting policy appropriate and disclosures sufficient

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Assessment

-  (Red) Marginal accounting policy which could potentially attract attention from regulators
-  (Amber) Accounting policy appropriate but scope for improved disclosure
-  (Green) Accounting policy appropriate and disclosures sufficient



Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the PWLB, the Council's bank and counterparties with whom the Council has placed investment deposits. With the exception of a small number of outstanding responses, all of these confirmations positively stated the balances included in the Council's financial statements.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report by the Director of Finance is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that this work has not yet been undertaken; completion is planned for August 2016.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

(i) Areas that impacted our audit approach

We have walked through the internal controls for Employee Remuneration, Property, Plant & Equipment and Operating Expenses. We have identified no internal control deficiencies in these areas.

(ii) Looking forward

We also undertook the same exercise as per (i) in respect of IT controls. This has identified a small number of control issues in relation to the SAP general ledger system. Note that the risks associated with these findings did not materialise during the audit and we are communicating these observations to you as areas for possible improvement. Addressing these findings would support a controls-based audit approach. Note that in the context of this year's audit, we have reviewed the cumulative impact of these deficiencies and have not had to alter our audit approach as a result. This year, we undertook a wholly substantive audit approach and, as per (i) above, no issues relating to internal control were identified. The matters that we identified from our review of IT controls are set out in the table below. These recommendations, together with management responses, are included in the action plan attached at Appendix A.

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	Assessment	Issue and risk	Recommendation
1.	 (Green) Deficiency - risk of inconsequential misstatement	<p>IT controls - segregation of duties</p> <p>There are currently inadequate controls in place to prevent segregation of duties conflicts from occurring within the SAP (general ledger) system. We acknowledge that the Council has invested in a functionality within the system to manage such conflicts but that currently this has not been enabled.</p> <p>It was also noted that some users have access to both live data and system programming functionalities. These are considered to be incompatible user permissions.</p>	<p>Review user access segregation conflicts and reduce the number of conflicts where possible, using the acquired system functionality. Management also should examine whether any existing compensating controls are sufficient to mitigate the risks posed by the current conflicts.</p> <p>Ensure that programmers do not have more than read-only system access. Where it is necessary for a programmer to have such access, this should be done under very strict conditions using a system account that is created especially and exclusively for the purpose of resolving the issue.</p>

Assessment

-  (Red) Material weakness – risk of material misstatement
-  (Amber) Significant deficiency – risk of significant misstatement
-  (Green) Deficiency – risk of inconsequential misstatement



Internal controls (continued)

	Assessment	Issue and risk	Recommendation
2.	<p style="text-align: center;"></p> <p>(Green) Deficiency - risk of inconsequential misstatement</p>	<p>IT controls - inappropriate system roles</p> <p>There are a large number of system users with inappropriate roles assigned. Specifically, there are 16 users who have access to standard system roles starting with 'SAP_'. The use of standard roles rather than specific roles which are tailored to a user's job position increases the risk that the permissions will be inappropriate and segregation of duties conflicts will be introduced.</p> <p>In addition, 4 users have the 'SAP_ALL' profile, which grants individuals full system access rights. This profile provides access to all IT functions as well as business transactions, which with misuse can cause operational instability and financial misstatements.</p>	<p>Ensure that user permissions are consistent with job positions within the organisation. Periodic reviews of the system roles should be undertaken to ensure that the roles match the job position over time. A review of the role structure in conjunction with the recommendation in 1 above will help prevent further conflicts from occurring in the SAP system.</p> <p>The SAP_ALL profile should be reserved for use within an emergency user account that can be locked when not in use. Most day to day administrative activities do not require such wide ranging access as provided by this profile.</p>
3.	<p style="text-align: center;"></p> <p>(Green) Deficiency - risk of inconsequential misstatement</p>	<p>IT controls - inappropriate system access</p> <p>In the SAP system it was noted that an excessive number of users have access to accounts to which access should be restricted, specifically those accounts which:</p> <ul style="list-style-type: none"> • enable access to run custom programs that have not been appropriately authorised. This potentially allows the user to access functionality not associated with their normal permissions; or • provide authorisations to enable system wide changes; or • allow system security parameters to be switched off or changed and thus can lead to system instability and financial misstatements; or • provide system rights to create, change or delete a user or add a system authorisation profile. A member of staff not in the IT department was found to have this level of access; or • enables system data to be deleted or modified. There is a risk of direct data modification which could lead to inaccurate financial reporting. In such instances it is recommended that a separate database administrator account is in place; or • enables users to unlock the system for configurational changes. For example, document types and number ranges can be configured and key purchasing controls can be altered with such access levels. 	<p>The use of these accounts should be restricted to system administrators and personnel who have been given appropriate levels of permission to access all custom programs. Such level of access should be allocated to emergency user accounts that are operated under strict change management controls.</p>

Internal controls (continued)

	Assessment	Issue and risk	Recommendation
4.	 (Green) Deficiency - risk of inconsequential misstatement	IT controls - security audit log functionality is not enabled Security audit log is not enabled. Such logging is especially important where users have inappropriate access or authorisation limits set.	Ensure that system security audit logs are recorded and monitored.
5.	 (Green) Deficiency - risk of inconsequential misstatement	IT controls – weak password controls SAP users are not currently required to create sufficiently strong passwords that contain at least 1 digit and 1 special character. In addition, there is no automatic expiry period for passwords set in the system. Strong passwords are a key feature in ensuring that passwords are not easily guessed or discovered. Without strong passwords in place there is an increased risk of unauthorised access being gained to the application and the underlying data.	Strengthen passwords by enforcing the need for at least one numerical character and one special character in the password string. Automatic password expiry should be enabled within the system.

Adjusted misstatements

As at 12 July no adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We will update the Audit and Governance Committee with the final outcome of our work.

Unadjusted misstatements

There are currently no unadjusted misstatements to report to you. We will update the Audit and Governance Committee with the final outcome of our work in this regard.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Account balance	Value £'000	Impact on the financial statements
1 Disclosure	Note 12 – Property, Plant and Equipment	1,655	An amount of £1,655k 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.
2 Disclosure	Group Comprehensive Income and Expenditure Statement	55,643	An amount of £55,643k was reclassified on the comprehensive income and expenditure statement 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 is detailed in Note 43. This correction was inadvertently missed in the group financial statements and has been corrected by management. 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.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and shared the results with you in our Audit Plan dated February 2016.

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

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

Significant qualitative aspects

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

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

- The publication of an inspection report by Ofsted dated 3 June 2015 concluded that the overall arrangements for Children's Services in the Surrey County Council area were judged to be 'inadequate.' This matter is evidence of weaknesses in leadership and proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities. The Council has since agreed an Improvement Plan to address the issues highlighted in the report. We note that the Council has considerable corporate ownership of these issues in Children's Services and that improvements are in hand. Ofsted has yet to publish a subsequent inspection report and as such the judgement from June 2015 remains in place.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of Ofsted, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial Health</p> <p>The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement, the scale of efficiencies and savings required is sizeable.</p>	<p>We have:</p> <ul style="list-style-type: none"> •reviewed the Council's progress in updating its medium term financial strategy and the reports to members •reviewed the outturn position for 2015/16 and the budget plans for 2016/17 and 2017/18 •meet with key officers to discuss key strategic challenges and the Council's proposed response 	<p>The Council has a very good recent history of coping with change in its financial environment, and after successfully completing 2015/16 with a £8.7m underspend, it is preparing its next five-year plan. The Council has set a balanced 2016/17 budget through a mixture of savings and planned use of £25m of reserves. There is an as yet unbridged funding gap rising to £50m by the end of 2018/19, which has arisen as a consequence of a difficult financial settlement from the Government with both reduced funding and some increased costs and burdens anticipated. The Council is continuing to drive transformational change across all departments but recognises that difficult decisions may be unavoidable.</p> <p>The Council continues to demonstrate sound arrangements for sustainable resource deployment in a very challenging external environment.</p>
<p>Orbis partnership</p> <p>The Orbis partnership is now underway. It is both innovative and represents a major change in back office service provision. The partnership is of considerable strategic importance to the Council.</p>	<p>We have:</p> <ul style="list-style-type: none"> •met with officers to understand the nature and extent of progress with the project. •reviewed key decision papers and reports presented to Council committees. 	<p>Early in 2015 both East Sussex and Surrey County Council Cabinets approved the business case to establish a public sector partnership to create an integrated business services organisation called Orbis delivering business and support services to both authorities. The Council has invested significantly in the partnership and Orbis now has 1,400 staff and a £53m operating budget.</p> <p>The partnership is aiming to deliver potential savings of 10%-15% (£6m-£8m) across both East Sussex and Surrey over a three year period through management delayering, process improvement and reduction of duplication. Orbis is also exploring the possibility of Brighton and Hove City Council joining the partnership. Good progress has been made to date including the appointment of Directors, and the development of the Orbis brand. A risk around licensing arrangements has been identified and a task force established to investigate any potential breach of terms and conditions as a result of working in partnership. Orbis will need to be clear about the impact of utilising software across the partnership when the contract is with only one sovereign organisation. This may require renegotiation of the contract to enable use across the partnership or even re-procurement. Key challenges ahead will include the development of a single culture and the integration of IT and data sharing/confidentiality, as well as licensing agreements.</p> <p>The Council has demonstrated proper arrangements in place for partnership working in respect of Orbis.</p>



Key findings continued

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Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services Ofsted issued a critical report on children's services in 2014/15 and the Council is currently subject to follow up review. We issued a qualified except for conclusion in 2014/15. Until such time as Ofsted confirm adequate arrangements are in place this remains a significant risk.</p>	<ul style="list-style-type: none"> We have reviewed the Council's progress in addressing Ofsted's recommendations including meeting with key officers, reviewing internal reports and further information from Ofsted as available. 	<p>The Council invited Ofsted to carry out an inspection of its children's services based on the new multiagency framework , following a reorganisation of its children in need teams and the establishment of the referral, assessment and intervention service (RIAS). Ofsted undertook its review in October and November 2014. Its report was published on 3 June 2015 with the overall judgement that children's services are inadequate. It states that 'there are widespread and serious failures that potentially leave children at risk of harm.' The main failing relates to the lack of management oversight of cases which were stepped down, with the risk that children do not receive the services that they need. The Council accepts this finding.</p> <p>An action plan was developed as soon as the inspection had concluded. This was divided into immediate short-term actions to correct failings, and longer-term more sustainable solutions. The Children's Improvement plan was refreshed in February 2016 showing that the Council had made some good progress, changes are underway, there is an understanding of the underlying challenges and that plans are in place to tackle these issues. Challenges for the Council include ensuring that there are sufficient and stable numbers of effective operational staff, reducing a reliance on agency staff which currently runs at 30%, ensuring leadership behaviours consistently promote high quality of practice, and building effective working with partners based on trust and clarity of respective roles and responsibilities. The Council recognises that, whilst it has made progress, there continues to be work required to achieve the consistent level of performance it aspires to.</p> <p>We concluded that there were weaknesses in leadership and in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.</p>

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	142,098	142,098
S. E. Business Services Limited*	15,000	TBC
Surrey Choices Limited*	18,000	TBC
Halsey Garton Property Limited*	9,000	TBC
Total audit fees (excluding VAT)	184,098	TBC

Fees for other services

Service	Fees £
Audit related services:	
Certification of Teachers' Pensions return (2015/16)**	4,000
Non-audit services:	Nil
None	

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

* Work still in progress – completion due in September 2016.

** To be completed in Autumn 2016.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

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Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Undertake an exercise to clear historic cleared debtor and creditor balances. Going forward, a regular process should be put in place to clear such balances as they arise.	Medium	The issue stems from some balance sheet GL codes being set up in SAP as 'non-clearing' GLs. This means that when a report is run on open items every transaction ever posted to the GL is displayed. This can obscure which transactions actually make up the balance on the GL. We have already begun an exercise to turn the GLs into 'clearing' GLs and then process clearing documents to clear transactions that off-set each other and remove them from downloads of open items.	Principal Accountant, December 2016
2.	<p>Review user access segregation conflicts and reduce the number of conflicts where possible, using the acquired system functionality. Consider whether any existing compensating controls are sufficient to mitigate the risks posed by the current conflicts.</p> <p>Ensure that programmers do not have more than read-only system access. Where it is necessary for a programmer to have such access, this should be done under very strict conditions using a system account that is created especially and exclusively for the purpose of resolving the issue.</p>	Medium	<p>Most of the users identified are IMT (Information Management Team) Developers or Internal Basis SAP users. Whilst this is still a risk, it has been mitigated whilst they are working on complex projects. We will endeavour to reduce the number of users on the 'SAP Transaction' element of the system to only those required for the project they are working on at a specific time. We will use our newly implemented software to limit the access for users and put processes in place to restrict users access or where necessary make suggestions to the business to amend their processes to limit the risk. Currently we are implementing a new approach by creating a team comprising of SAP security staff, IMT security staff and leads with the business for each Council area to discuss access changes, role assignment and role changes.</p> <p>The users identified had access to 'SAP_ALL' at the time of the audit; this access has long since been removed. At the time of the audit they would have appeared in all access reports, but this is now not the case.</p>	SAP security officer, December 2016

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Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	<p>Ensure that user permissions are consistent with job positions within the organisation. Periodic reviews of the system roles should be undertaken to ensure that the roles match the job position over time. A review of the role structure in conjunction with the recommendation in 1 above will help prevent further conflicts from occurring in the SAP system.</p> <p>The SAP_ALL profile should be reserved for use within an emergency user account that can be locked when not in use. Most day to day administrative activities do not require such wide ranging access as provided by this profile.</p>	Medium	<p>The SAP Security Team will remove all SAP standard roles from users and if necessary build a role for users that more accurately reflects the access needed.</p> <p>Access for one of the users identified was temporary whilst dealing with specific IMT projects. For one other user their access has been changed to a 'system' user as it should not have been created as a 'dialog' user. For two other users a process will be investigated to determine a mechanism for appropriate segregation of duties or for limiting access in the production system.</p>	SAP security officer, December 2016
4.	<p>The use of these accounts should be restricted to system administrators and personnel who have been given appropriate levels of permission to access all custom programs. Such level of access should be allocated to emergency user accounts that are operated under strict change management controls.</p>	Medium	<p>The SAP Security Team will continue to look at access and try to reduce the numbers of users. Certain users do need access to specific codes but they are restricted to only the programs that are required to be executed as part of their role.</p> <p>In addition, some code access will be replaced by more appropriate access and in other instances access will be wholly removed from users that are not IT Technical staff, or where it is not otherwise required.</p> <p>One user identified is currently within our Basis team and has been working on many enhancements within the organisation, including a new invoice payments system as part of our Orbis partnership with East Sussex County Council. These projects are either all completed or nearing completion. The SAP Security Team will reduce that user's access to only that which is required to complete the work. We will also look to restrict users assigning profiles with inappropriate authorisation access.</p>	SAP security officer, December 2016

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5.	Ensure that system security audit logs are recorded and monitored.	Low	This was investigated and we determined that it is very resource intensive. The business decision made was to only turn on the security log for the HR payroll module. We have internal controls and reports that are used to monitor what users with excessive access are performing. We will reconsider this and reduce the number of transactions users have access to so as to ensure they are the only ones required for their role in the production system.	SAP security officer, December 2016
6.	Strengthen passwords by enforcing the need for at least one numerical character and one special character in the password string. Automatic password expiry should be enabled within the system.	Low	The password controls are not controlled via SAP. We use Single Sign On (SSO) and hence the SAP controls are turned off. Controls are implemented via our Novell client and currently this does require 1 digit and 1 capital. We will pass these findings onto the IMT Security Team for a formal decision.	SAP security officer, December 2016

Appendix B: DRAFT audit opinion

We anticipate we will provide the Council with a modified audit report.

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

We have audited the financial statements of Surrey County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Asset Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report by the Director of Finance, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report by the Director of Finance and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority 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.

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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter: In June 2015, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection, children looked after and care leavers. The overall judgement was that children's services were rated as inadequate. The report concluded that:

- there are widespread and serious failures that potentially leave children at risk of harm;
- leaders and managers have not been able to demonstrate sufficient understanding of failures; and
- leaders and managers have been ineffective in prioritising, challenging and making improvements.

At the date of our opinion, the Authority has agreed an Improvement Plan to address the issues highlighted in the report. Ofsted has yet to publish a subsequent inspection report and as such the judgement from June 2015 remains extant.

This matter is evidence of weaknesses in leadership and proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance

management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give 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. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Andy Mack
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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DRAFT July 2016



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