

The Audit Findings for Surrey County Council

Year ended 31 March 2017

17 July 2017

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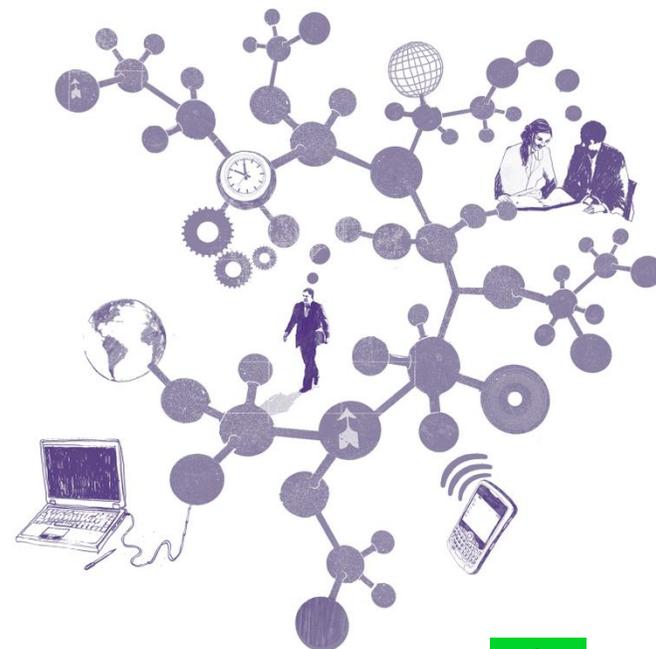
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July 2017

Dear Sirs

Audit Findings for Surrey County Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Surrey County Council Council, the Audit and Governance Committee), to oversee the financial reporting process, 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) ('ISA (UK&I)'), 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

Ciaran T McLaughlin

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 ended 31 March 2017 and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Council acquired in the course of performing our audit; or otherwise misleading.

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 year ended 31 March 2017.

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 February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Audit testing of grant revenues, non-grant revenues, pay expenditure, revenue and expenditure cut-off testing,, related party transactions and our work on the valuation of PPE and consolidation procedures.
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement (AGS)
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

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 Council's financial statements are that the finance team:

- produced draft financial statements and working papers to a good standard.
- successfully implemented CIPFA's "Telling the Story" for 2016/17 changes which resulted in a change to the presentation of the Comprehensive Income and Expenditure Statement (CIES) and production of the new Expenditure Funding Analysis and associated notes.
- worked effectively with our audit team to ensure a smooth audit.

We have identified two adjustments affecting the Group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £156,403k; the audited financial statements show net expenditure of £152,020k. This change is primarily driven by changes made to short term debtors to record deferred receipts for the disposal of an asset which has in turn generated a gain on disposal which had previously not been recognised. We have also recommended a number of minor disclosure 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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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

Our work has not identified any control weaknesses which we wish bring to your attention.

Value for Money

In June 2015, a report on the inspection of services for children in need of help and protection, looked after children and care leavers, concluded that, overall, children's services in Surrey County Council were judged to be inadequate. You have been responsive to the issues identified by the inspection and undertaken a series of actions, as part of a three year strategy, to improve children's services. However recent Ofsted letters highlight areas where improvement is still required.

Based on our review, with the exception of the matter set out above in relation to arrangements for management of children's services, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ended 31 March 2017.

Page 285 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 received an objection from an elector to the Council's 2016/17 Accounts. The elector has alleged that the Council has unlawfully charged residents for the disposal of household DIY waste at its Community Recycling Centres. We are currently completing our work on this matter and will draft a statement of reasons to be sent to the elector before the end of July 2017. We have not identified any other issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

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.

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 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £26,789k (being 1.5% of 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 £1,339k. 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 not to set separate materiality levels but where we undertook more extensive testing.

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Balance/transaction/disclosure	Explanation
Cash and cash equivalents	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 the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of the rebutted fraudulent revenue recognition risk.</p> <p>Through our work we identified one issue whereby the Council had not accounted for the deferred capital receipt element in respect of an asset disposed of in the year. Thereby, understating Short term debtors and deferred capital receipts reserve as well as understating the gain on disposal of non-current assets. This misstatement is not due to fraud.</p> <p>Subject to completion of our procedures as outlined on page 5 of this report, our audit work has not identified any further issues in respect of revenue recognition.</p> <p>We will update the Audit and Governance Committee with the outcome of our work.</p>

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

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
<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"> • Review of entity controls • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Subject to the completion of our procedures as outlined on page 5 of this report, 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 will update the Audit and Governance Committee with the outcome of our work.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. Although we did not report on our assessment to you as part of our planning we have included it here in the interests of completeness and transparency.</p>	<p>Having considered the risk factors and the nature of the expenditure at Surrey County Council, we have determined that the risk of fraud arising from the expenditure transactions can be rebutted:</p> <ul style="list-style-type: none"> • incentive and opportunities to manipulate expenditure are very limited. • the culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable. • we are already reviewing unusual significant transactions, accounting estimates and journal entries in addressing the risk of management override of control above. 	<p>Subject to completion of our procedures as outlined on page 5 of this report, our audit work has not identified any issues in respect of revenue recognition.</p> <p>We will update the Audit and Governance Committee with the outcome of our work.</p>

Audit findings against significant risks (continued)

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Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<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 the 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 were input correctly into the Council's asset register • 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>Subject to completion of our procedures as outlined on page 5 of this report, 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>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those 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 the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability 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	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle and undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding. performed a trend analysis of the monthly payroll runs from during the year. performed other detailed testing in respect of the gross payroll expenditure balance ensured the reconciliation of pay expenditure in the ledger to the accounts. 	<p>Subject to completion of our procedures as outlined on page 5 of this report, 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>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, Plant and Equipment	<p>The Property Plant and equipment balances represent a substantial proportion of the Council's Balance Sheet.</p> <p>We identified the valuation of PPE activity in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> 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"> documented our understanding of processes and key controls over the transaction cycle and undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding. performed sample testing of additions and disposals performed sample testing of depreciation charges for the year reviewed the reconciliation of the fixed asset register to the general ledger 	<p>Our audit work has identified an issue whereby the Council had not derecognised a school which had converted to an academy during the year, therefore overstating its assets and understating its other operating expenditure.</p> <p>Our audit work has not identified any further material issues in respect of the risk identified.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding confirmed the accounts payable system is fully integrated with the general ledger Tested year-end creditors and accruals Tested post year-end payments 	<p>Subject to completion of our procedures as outlined on page 5 of this report, 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>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work has not identified any material issues in respect of the risk identified.</p>

Audit findings against other risks continued

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there is not a material uncertainty about the entity's ability to continue as a going concern.

We carried out the following work and concluded that there is not a material uncertainty about the Council's ability to continue as a going concern.

- Reviewed management's assessment of the going concern assumption and the disclosures in the financial statements.
- Reviewed your Medium Term Financial Plan including forecast income and expenditure over the next two years.
- Refreshed our understanding of your internal financial governance mechanisms.
- Reviewed your historic savings achievements and your future savings programme.
- Considered whether statutory services will still be delivered over the next two years.

Significant matters discussed with management

	Significant matter	Commentary
1.	The valuation of the Council's investment in Halsey Garton share capital	<ul style="list-style-type: none"> The Council has accounted for its investment in the share capital of Halsey Garton Property Ltd at cost less impairment, i.e. current nominal value of the shares. The Code requires for investments of this nature to be measured at fair value, exceptional circumstances permitting. The Council has been able to demonstrate that the fair value estimate based on the net assets of the company plus present value of future projected cashflows over the next ten years is not materially different to the cost less impairment valuation of the shares as disclosed in the accounts. Through our work on this area we have gained reasonable assurance over the validity of the method and key underlying assumptions over management's assertion that the cost less impairment measurement is not materially different to the fair value of the Council's investment in the share capital of Halsey Garton Property Ltd.
2	The valuation the Eco Park build costs, which are shown within Assets under Construction	<ul style="list-style-type: none"> The Council has a PFI contract with Suez (formerly known as SITA) for the delivery of an integrated waste service, including the construction of the Eco Park waste infrastructure. The Eco Park is currently under construction and Suez provide the Council with capital expenditure incurred in relation to the project at the end of each financial year which is fed into the accounts. Through our audit work we have challenged the Council to demonstrate what processes and controls are in place to validate the capital expenditure figures provided by Suez that are recorded in the accounts. The Council has demonstrated that it has sufficiently robust processes in place to validate the capital expenditure including their own qualified and experienced project manager carrying out weekly on-site assessment to assess progress against project milestones.

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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
South East Business Services Ltd	No	Analytical	None	High Level Analytical review	Subject to completion of our procedures as outlined on page 5 of this report, our audit work has not identified any material issues in respect of the risk identified. We will update the Audit and Governance Committee with the outcome of our work.
Surrey Choices Ltd	No	Analytical	None	High Level Analytical review	Subject to completion of our procedures as outlined on page 5 of this report, our audit work has not identified any material issues in respect of the risk identified. We will update the Audit and Governance Committee with the outcome of our work.
Halsey Garton Property Ltd	Yes	Targeted	Valuation of Investment Property assets and share capital	Detailed testing of the asset and liability balances material to the group.	Subject to completion of our procedures as outlined on page 5 of this report and our findings on page 17, our audit work has not identified any material issues in respect of the risk identified. We will update the Audit and Governance Committee with the outcome of our work.

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.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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, rather than when income is received. • 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 grant or contributions will be received. 	<p>Our review of the accounting policies confirmed that policies in respect of revenue recognition are adequately disclosed in line with the requirements of the Code.</p> <p>Our audit work has identified an issue whereby the Council had not recognised the deferred capital element in respect of an asset disposed of during the year. Therefore, understating Short term debtors and the gain on disposal of non-current assets. However, the misstatement was not a result of inadequate accounting policy.</p>	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Critical judgments include <ul style="list-style-type: none"> – Level of government grant funding and recognition of grant revenues – Accounting for the Council’s PFI schemes – Accounting for schools – Fair value measurement of surplus assets – The Council’s interest in other entities • Key estimates include <ul style="list-style-type: none"> – The useful economic lives of PPE – Pensions Liability – Provision for the impairment of receivables – Fair value measurements where level 1 inputs are unavailable. <p>(Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date).</p>	<p>Critical judgements and key estimation uncertainties are disclosed in notes 3 and 4 of the financial statements and are consistent with the requirements of the CIPFA Code.</p> <p>The Code requires that the Council ensures that the carrying value of its assets at the reporting date is not materially different from the current value. Given that the Council revalues its assets on a rolling basis over a five year period the Council should therefore include a critical judgement as to why the carrying value of assets which have potentially not been revalued for up to four years are not materially different to their current value.</p>	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● 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 continues 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 2016/17 financial statements.	
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Whilst we identified no significant issues we have identified a few areas where improved disclosure is required around pooled budget arrangements and financial instruments.	

Assessment

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 in February 2017. We have not been made aware of any other 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 identified that the Council had not disclosed transactions with entities over which it has control or with entities over which it has significant influence. However, the Council has included disclosure of these transactions within the audited accounts.
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, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for: <ul style="list-style-type: none"> Valuation of the Council's investment in Halsey Garton Property Ltd.'s share capital Council's judgement that the carrying value of assets not revalued in the current year are not materially different to their current value had they been subject to full valuation at the reporting date
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bank and counterparties with whom the Council has placed investment deposits or has borrowed from. This permission was granted and the requests were sent. With the exception of a small number of outstanding responses these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Please refer to page 30 of this report where we have detailed any disclosure issue identified during the course of the audit.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: <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 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 examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that this work is planned for September 2017.
9.	Formal Objections	<ul style="list-style-type: none"> The Council has received one formal objection to the accounts during the official accounts inspection period, which has been reviewed and been responded to accordingly.

Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of recommendations raised in prior year

	Assessment	Recommendations raised in the prior year	Update from Management on actions taken in response to the recommendation
1.	✓	<p>IT controls – segregation of duties</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>	<p>We continually review the access granted to developers and consultants to remove unnecessary access and time limit access to a defined project length. There remain two employees of the Council with access to the role which was of particular concern. These are employees within the SAP security team of IT&D. Their work requires access to all areas of the system. The risk of this is mitigated as reports can be run on all the changes the security team make on the system. These are periodically reviewed by internal audit.</p>
Page 303	✓	<p>IT controls – inappropriate system roles</p> <p>Ensure that user permissions are consistent with job positions within the organization. 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 required such wide ranging access as provided by this profile.</p>	<p>The organisations team now liaise with managers when doing restructures to ensure that SAP roles are consistent with job positions within the Council. Additionally reports have been built to remove access from users who no longer require access to a specific area, e.g. time administration. There remain two employees of the Council with access to the role which was of particular concern. These are employees within the SAP security team of IT&D. Their work requires access to all areas of the system. The risk of this is mitigated as reports can be run on all the changes the security team make on the system. These are periodically reviewed by internal audit.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Internal controls – review of recommendations raised in prior year (continued)

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	Assessment	Recommendations raised in the prior year	Update from Management on actions taken in response to the recommendation
3.	✓	<p>IT controls – inappropriate system access</p> <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>	<p>The accounts where concerns are raised are restricted to specific users. We constantly review the access assigned to these users and usually access is given with strict time constraints i.e. the access expires within a month or at the conclusion of a project.</p>
4.	In progress	<p>IT controls – security audit log functionality is not enabled</p> <p>Ensure that system security audit logs are recorded and monitored.</p>	<p>Audit log functionality is enabled for the two key functional areas HR & Finance that most present the sort of risks stated in the report (inappropriate access or authorisation limits). Also in conjunction we also undertake a range of other activities within our SAP security team to take more preventative steps to ensure we manage such risks (roles monitored and process audits) , which are being further strengthened by implementation of the GRC (Governance Risk & Compliance) module.</p>
5.	✓	<p>IT controls – weak password controls</p> <p>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.</p>	<p>Our SAP passwords are synchronised to our LAN passwords and these do have the requirements suggested and have validity periods whereby users are prompted & have to change their passwords within an expiry date or their accounts & access to our systems and files will be locked</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Adjusted misstatements

A number of 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. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Testing of PPE disposals identified an asset disposed of by the Council for which part of the sales proceeds had been deferred. This deferred element of sales proceeds had not been recognised within the accounts.	Cr: Other Operating Income – (12,113)	Dr: Short term Debtors – 12,113	(12,113)
2 Testing of PPE Derecognitions identified a Council maintained school which had converted to an academy during the year but had not been derecognised from the Balance sheet.	Dr: Financing and Investment Expenditure – 7,730	Cr: Property, Plant & Equipment – (7,730)	7,730
3 Casting error meant that Gross expenditure and Gross Income on the Deficit on Provision of services line of the CIES were both overstated although net expenditure was correct.	Dr: Deficit on the Provision of services (Gross Exp.) - 2,613 Cr: Deficit on the Provision of services (Gross Inc.) – (2,613)		

Adjusted misstatements (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
4	<p>Testing of PPE identified that the Council had not separately disclosed the depreciation written out upon revaluation of assets at year end 31 March 2017. Instead, the depreciation required to be written out had been applied to the cost of the asset. This resulted in Accumulated Depreciation and Cost of assets each being overstated. The correcting entries also require an adjustment to opening balances for Cost and Accumulated depreciation. This issue had no impact on the net book value of PPE on the Balance Sheet in the current or prior year.</p>		<p>Dr: Depreciation written out to the revaluation reserve – 25,104.</p> <p>Cr: PPE at cost – (25,104).</p> <p>Dr: PPE Accumulated Depreciation Opening balance – 34,984.</p> <p>Cr: PPE Opening Balance at Cost – (34,984).</p>	
	Overall impact	(£4,383k)	£4,383k	(£4,383k)

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. The Accounts have been subject to a review by our financial reporting team during the year and the findings from their review have been added to the findings from the audit teams review.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,965	CIES	Gross Income for Human Resources & Org development service segment had been incorrectly classified as income relating to Highways & Transport services. No net impact on the CIES.
2 Disclosure	17,906	Note 33: Grants & Contributions	Other Revenue grants credited to services had been incorrectly disclosed as £9,497k rather than £27,403k.
3 Disclosure	4	Note 31: External Audit costs	Formatting error had meant the Fee payable in respect of the certification of the Teachers' Pension return had been incorrectly disclosed as an audit fee rebate.
4 Disclosure	Various	Notes to the Group Accounts	The Council had not disclosed audit fees payable by Halsey Garton Property Ltd, Surrey Choices Ltd and SEBS Ltd to their external auditor (Grant Thornton UK LLP)
5 Disclosure	Various	Note 40: Defined benefit pension schemes	The Council had incorrectly disclosed figures in relation to the fair value of scheme assets, principal assumptions and investment assets. No net impact on the Balance sheet.
6 Disclosure	Various	Note 34: Related Party Transactions	The Council had not disclosed the transactions with its wholly owned subsidiary companies (i.e. entities over which it has control over) within the accounts
7 Disclosure	-	Various	A number of minor disclosure adjustments have been made in order for the financial statements to meet the requirements of the CIPFA Code and to correct casting errors within the Council and group 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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

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 January 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2017.

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.

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 consideration was in relation to the Ofsted inspection of children's services risk:

- There have been improvements in the arrangements during 2016/17. Full completion of the improvement programme is not due to be completed until later in 2016/17 and, as such, you remain in the process of bringing arrangements into line with required standards. The Department for Education has decided to maintain the current level of intervention in respect of children's services. Accordingly, we have qualified our Value for Money conclusion in respect of Children's Services for 2016/17.

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 set out above in respect of children's services, you 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 as identified in our Audit Plan in March 2017	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 2016/17. However, following the most recent settlement, the scale of efficiencies and savings required is sizeable and the Council has decided to hold a referendum in May 2017 where it is asking electors to agree a proposed increase of 15% in the level of Council Tax. There is a risk that if the Council does not receive the mandate which it has asked for from tax payers, it will need to draw back significantly on its proposed spending programme.</p>	<ul style="list-style-type: none"> • review the Council's progress in updating its medium term financial strategy and the reports to Members • review the outturn position for 2016/17 and the budget plans for 2017/18 and 2018/19 • meet with key officers to discuss key strategic challenges and the Council's proposed response. 	<p>You have a history of good financial management and delivered a surplus out turn for 2016/17, enabling you to increase reserve levels. You face a significant challenge to balance the budget going forward, with a savings target of £104m in 2017/18. The gap between income and expenditure over the next few years is being driven by escalating social care costs and a continued reduction in central government grant income. You have costed plans in place to reduce the gap by making efficiencies to services, reducing selected non-statutory services and using your reserves. You are pursuing innovative schemes and working with other councils to save money. You are also looking at methods of income generation via investment in property. Even with all these schemes in place, early budget monitoring indicates potential for an overspend (approx. 2% of expenditure) in 2017/18. You recognise the need for management action to ensure the Council spends within its available resources. You are aware of the financial environment and have robust arrangements in place to monitor budgets against actuals, identify areas of focus and take action. Even with your strong track record of making efficiency savings the scale of the task going forward will require a strategic approach.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has adequate arrangements</p>

Key findings (continued)

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Significant risk as identified in our Audit Plan in March 2017	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 and 2015/16. Until such time as Ofsted confirmed adequate arrangements are in place this remains a significant risk.</p>	<ul style="list-style-type: none"> review update reports from Ofsted and / or the Department for Education as they become available and take these into account in forming our conclusion. 	<p>We reviewed the Ofsted letters dated 10 February 2017 and 13 June 2017.</p> <p>It is clear from these letters that you have made good progress against your improvement plan since the Ofsted inspection in June 2015 and should be commended for the outcome of this work. However Ofsted point out some areas where more work is required to improve the service, some areas where good practice has been inconsistent and some areas where improvement has been too slow.</p> <p>Whilst recognising the progress you have made in response to the Ofsted report, your work in these areas is on-going and, accordingly, we propose to qualify our value for money conclusion in this respect.</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

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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
South East Business Services Ltd	12,000	TBC
Surrey Choices Ltd	17,000	TBC
Halsey Garton Property Ltd	12,500	TBC
Total audit fees (excluding VAT)	183,598	TBC

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

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Teachers' Pension return for Surrey County Council (2016-17)	4,000
• Certification of Teachers' Pension return for Surrey Choices Ltd (2016-17)	3,500
Non-audit services	Nil
None	

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council. The adjacent table summarises all other services which were identified.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the group and Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees (£)	Threat?	Safeguard	
Page 316	Audit related services	Certification of Teachers' Pension return for Surrey County Council (2016-17)	4,000	<ul style="list-style-type: none"> Self- Interest 	<p>This is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£142,098k) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.</p> <p>As Marcus Ward's wife works as a teacher in Surrey he will not be part of the team who carries out the audit work or quality review.</p>
		Certification of Teachers' Pension return for Surrey Choices Ltd (2016-17)	3,500	<ul style="list-style-type: none"> Self-Interest 	<p>This is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit for the parent authority and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.</p>
	TOTAL	£7,500			

Note: In addition to the amounts set out above, a team from our Government & Infrastructure Advisory team were engaged by Morgan Sindall Investments Limited to build a financial model for use in their bid to work with the Council in developing a joint venture. We are satisfied that the scope and nature of the work did not constitute a conflict of interests for the firm but are disclosing it here in the interests of openness and transparency.

Section 5: Communication of audit matters

01. Executive summary

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05. Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.

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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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
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.	✓	✓

Appendices

A. Action Plans

B. Audit Opinion

A. Action Plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Ensure processes are in place to capture all schools which have converted to academies during the year and moved off-balance sheet onto the Fixed Asset Register.	Medium	The process to capture all conversions in year is already fairly robust. An enhanced reconciliation process that ensures all conversions have been moved off the balance sheet is to be implemented.	March 2018 – Principal Accountant
2	Ensure processes and the communication channels between different Council departments are aligned such that any contractual information that may affect revenue recognition are known to all relevant parties.	Medium	The Financial Accounting team are to obtain completion statements for all sales of material assets. These requirements will be communicated to colleagues in Finance, Property and Legal Services. Enhanced monitoring of the capital receipts reserve is to be implemented to ensure that information on payment profiles is captured by accounting staff.	July 2017 – Principal Accountant

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Controls

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

B: Audit opinion

We anticipate we will provide the Group with an unmodified audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF [NAME OF CLIENT]

We have audited the financial statements of [name of client] (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise [the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement , the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement , the Collection Fund Statement] and the related notes .. 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 2016/17.

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 Authority’s 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 [Chief Financial Officer] and auditor

As explained more fully in the Statement of Responsibilities , the [Chief Financial Officer] 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the “Code of Audit Practice”) 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 [Chief Financial Officer]; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, [and] the Annual Governance Statement [and the Annual Report] 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 2017 and of the Authority's and Group's expenditure and income for the year then ended; and the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Narrative Report, [and] the Annual Governance Statement [and the Annual Report] for the financial year for which the financial statements are prepared is consistent with the 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: Framework (2016)' published by CIPFA and SOLACE; or we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Ensure the titles used are consistent with the actual titles of the documents being referred to. Where the financial statements are published with an annual report, make reference to the actual title of that document. If the Authority does not produce an annual report or an annual report is published which does not contain the financial statements, this reference should be deleted. Where the auditor has issues to report under any of the issues listed, they should be deleted from this section and a suitable exception report, briefly explaining the action taken, inserted in the following section.

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

Respective responsibilities of the Authority and auditor

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.

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 criteria 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 2017.

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.

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.

Reviews of children's services undertaken by the Ofsted in the form of monitoring visits in 2017 found that progress had been made in response to the Ofsted findings, but that further improvements were required in a number of areas.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and 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 2016, 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 2017.

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 2017. 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 of Audit Practice.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Narrative Report, [and] the Annual Governance Statement [and the Annual Report] for the financial year for which the financial statements are prepared is consistent with the 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: Framework (2016)’ published by CIPFA and SOLACE; or we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.



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