

The Audit Findings for Somerset County Council

Year ended: 31 March 2017

19 July 2017

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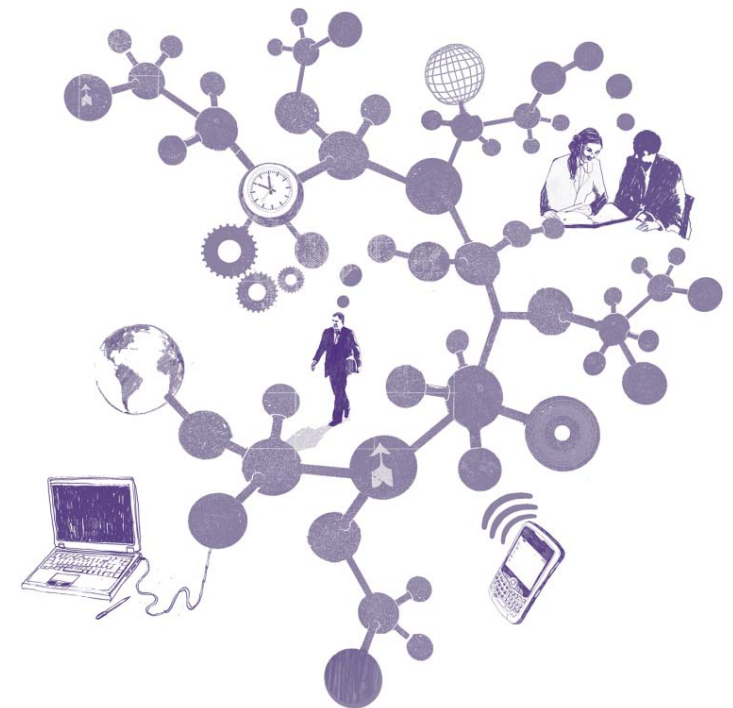
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19 July 2017

Dear Members of the Audit Committee

Audit Findings for Somerset 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 Somerset County Council, the Audit 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 the Director of Finance and Performance and finance officers.

As auditor 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 sincerely

Peter Barber
Engagement lead

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Somerset County Council's ('the Council') 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 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 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.

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 20 March 2017.

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

- Substantive testing of unrecorded liabilities;
- Agreement of some outstanding third party confirmations for bank balances and investments
- Consideration of insurance provision
- Appropriateness of related party transactions disclosures
- Obtaining and reviewing the management letter of representation
- Review of revised versions of the Annual Governance Statement and
- Updating our post balance sheet events review, to the date of signing the opinion

We are unable to complete our work on the Whole of Government Accounts as part of our opinion audit as government guidance is still being finalised. This will be completed to meet the statutory deadline.

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

There are no adjustments affecting the Council's reported financial position for the year. We recommended a small number of adjustments to improve the presentation of the financial statements.

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

- The draft statements were presented for audit in early June 2017. This continues the commitment shown by the Council in the previous year to voluntarily bring forward the closure of the accounts and will ensure it is well placed to meet the requirement under the regulations for approval by 31 May in the 2017/18 financial year.
- The draft financial statements were free from material error and supported by good quality working papers.
- With the exception of journals authorisation, issues identified in previous years had been fully addressed and no further issues in these areas were noted.
- We received positive engagement from officers and timely responses to our audit queries.

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 (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 identified, as it did last year, that journal policies do not require journals to be authorised by a second person.

Further details are provided within section two of this report.

Value for Money

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

We are again proposing an ‘except for’ Value for Money Conclusion due to the most recent formal Ofsted inspection.

Other statutory powers and duties

We have received an objection from a local authority elector and we cannot complete our audit or issue our certificate until this has been concluded.

We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our Value for Money conclusion.

Further details of our work on other statutory powers and duties as at 19 July 2017 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 and Performance.

We have made one recommendation, which is set out in the action plan at Appendix A. This has been discussed with the Director of Finance and Performance 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
19 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 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 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 £14.599 million (being 1.8% 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 £0.728 million (5% of materiality) and 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 and these remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosure of members allowances in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
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.	£5,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

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
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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Somerset 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 Somerset County Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2	<p>Management over-ride of controls</p> <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management. • Testing of journal entries. • Review of any 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. As in prior years, there is no requirement for journals to be authorised by a second person.</p> <p>Although no material issues have arisen as a result of our journals testing and the Council consider that appropriate mitigating controls are in place to address this issue, we are required to continue to report this matter each year.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"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

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>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p>	<p>We have considered this risk and have concluded that there is no significant risk of fraud because:</p> <ul style="list-style-type: none"> • there is careful monitoring of spend; and • there is no incentive for management to manipulate the financial position. <p>In addition, of your 2016/17 budgeted expenditure:</p> <ul style="list-style-type: none"> • 35% relates to employee remuneration, which is addressed by our procedure in response to the identified risk in this area; and • 65% relates to other expenditure which is addressed by our procedures in response to the identified risks in all material areas. <p>We do not consider this to be a risk to the audit as our experience is that expenditure is well controlled and monitored.</p>	<p>The expenditure percentages have not changed significantly since 2015/16 and our audit work has not identified any issues in respect of expenditure recognition.</p>
4	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</p> <ul style="list-style-type: none"> • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • 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 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 significant issues in relation to the risk identified.</p>

Audit findings against significant risks continued

	Risks identified in our Audit Plan	Work completed	Assurance gained and issues arising
5	<p>Valuation of property, plant and equipment (PPE) and Investment property</p> <p>The Council revalues its PPE assets on a rolling basis with assets revalued at least every five years. 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> <p>The CIPFA Code of Practice implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include Investment property its financial statements at fair value, as defined by IFRS13. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</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>Our work has not identified any material issues with the valuation of property plant and equipment. We are satisfied that the carrying value of your assets in your balance sheet, overall, is not materially different from their fair value. It was noted, however, that County Hall has not been revalued since 2012 and that application of our expert's indices shows a 37% movement in the value of the asset.</p> <p>Discussion with finance staff identified that County Hall had not been revalued in 2016/17 as originally planned because ongoing costs of updating and reconfiguring the asset were still being incurred. The identified movement is not material to the overall value of property, plant and equipment and management have provided assurances that the asset will be revalued in 2017/18.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
<p>Operating expenses</p>	<p>Year end creditors and accruals are understated or not recorded in the correct period.</p>	<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 are designed effectively. • reconciled the operating expenses figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and the subsidiary accounts system. • review of year end Creditors control account reconciliations • gained an understanding of the year end accruals process, and sample testing of accruals to ensure calculated on a reasonable basis. <p>We are still to complete work in the following area:</p> <ul style="list-style-type: none"> • review for unrecorded liabilities through, for example, review of payments made after the year end. 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</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

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.



Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
<p>Employee remuneration</p>	<p>Employee remuneration accruals are understated</p>	<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 are designed effectively. • reconciled the payroll figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and payroll subsidiary system. • undertaken a trend analysis of monthly payroll data, to identify and unusual variances on which additional audit procedures may be required. • reviewed pensions disclosures and agreement to underlying evidence for completeness and accuracy. • reviewed senior managers remuneration, salary banding and exit packages disclosures, for completeness and accuracy. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks continued




Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
<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 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>	<ul style="list-style-type: none"> • We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We have tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We have tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We have tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We have 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 significant issues in relation to the risk identified.</p>
<p>Change in supplier of SAP system</p>	<p>There was a change of supplier for the ledger system SAP in 2016/17.</p>	<p>Our IT auditors have reviewed the migration of the data in conjunction with your IT and finance staff.</p> <p>We have considered the implications of the changes as part of our IT controls work.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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	The Council has set out its policy for major sources of revenue and funding in the accounting policies reported in the financial statements.	The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). Income is not an area that requires significant judgement or estimation. The disclosure of the accounting policy is adequate.	 (Green)
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> • Depreciation • PPE – Land and Buildings • Provisions • Pensions Liability • Accruals • Doubtful Debt Impairment • Employee Benefit Accrual • Accounting for Schools • Academies • PFI and Similar Arrangements 	We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that: <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by an expert or third party Please also see page 12 where we note that County Hall had not been revalued in 2016/17 as originally planned and that management have provided assurances that the asset will be revalued in 2017/18.	 (Green)

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
<p>Going concern</p>	<p>The Director of Finance and Performance, s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. Considerations of going concern have been reported during the year to the Audit Committee and also as part of the MTFP process.</p> <p>There are two potential areas to consider in terms of going concern to a local authority – adequacy of reserves and enforced change from central government.</p> <p>For these reasons the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>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.</p>	<p style="text-align: center;">● (Green)</p>
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>The Council's accounting policies are appropriate and consistent with previous years.</p>	<p style="text-align: center;">● (Green)</p>

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

	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 Committee. 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 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 requested from management permission to send confirmation requests to third parties for bank and investment balances. This permission was granted and the requests were sent. We are still awaiting some confirmations as at the date of this report.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omission in the financial statements.
7.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of 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. <p>We have not identified any issues we would be required to report by exception.</p>
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>We will complete our work on WGA when the consolidation pack is available</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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on pages 13 and 14 above.

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

Internal controls

	Assessment	Issue and risk	Recommendation
1.	 (amber)	<ul style="list-style-type: none"> We reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and did not identify any material weaknesses which were likely to adversely impact on the Council's control environment or financial statements. However, as reported in previous years, we found that journal policies do not require journals to be authorised by a second person. 	To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that the Council includes in its journal policy the requirement that all journals should be authorised by a second person.

Assessment

-  Significant deficiency – risk of significant misstatement (red)
-  Deficiency – risk of inconsequential misstatement (amber)

"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)

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management

Adjusted misstatements

We did not identify any material errors within your financial statements that needed to be adjusted.

Unadjusted misstatements in the prior year

There are no unadjusted misstatements within the financial statements.

Impact of unadjusted misstatements in the prior year

There were no unadjusted misstatements in the prior year

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	973	21,624k	Analysis of finance leases where the authority is the lessee identified that the contingent rent PFI payments had been omitted from the analysis as per note 30

Section 3: Value for Money

01. Executive summary

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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 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 20 March 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.

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:

- a review of the update reports to the Council on the progress against the improvement plan. We also reviewed any further updates as they become available and took these into account in forming our conclusion.
- the Council's medium term financial plan and, in particular, the outturn for 2016/17 and the Council's ability to manage demand and financial pressures over the medium to long term.

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 on the following pages.

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 the Ofsted Inspection of Children's Services, 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.

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 on the following pages.

Recommendations for improvement

We discussed findings arising from our work with management.

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 conclusion															
<p>Strategic financial planning</p> <p>During 2016/17 the Council has experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends. These have been offset by underspends elsewhere and a draw down on its reserves.</p> <p>The existing Medium Term Financial Plan (MTFP) was approved by Full Council in February 2016 and covered the period 2016/17 to 2020/21. The plan showed a balanced budget for 2016/17 with a shortfall of £37.292m for the next four years. An update on the MTFP position was provided to Cabinet on the 26 September 2016. This showed that the position had moved on to a shortfall of £35.616m covering the period 2017/18 to 2020/21.</p> <p>As part of the budget setting process for 2017/18 the medium term financial plan was updated as at 6 February 2017 with target savings values identified across seven themed areas. Each theme is led by a Director and a Cabinet Member, supported by a Strategic Finance Manager. The 2017/18 budget has now been set with agreed savings of £18.119m. The cumulative shortfall over the remainder of the medium term financial plan period is now £19.5m as follows:</p> <p>2018/19 - £12.8m 2019/20 - £4.6m 2010/21 - £2.1m</p>	<p>We reviewed the budgets for 2016/17 and 2017/18 and the outturn reports for 2016/17.</p> <p>We reviewed the Council's medium term financial plan and its efficiency plan.</p>	<p>The 2016/17 budget required savings of £12.120m and these were deducted from the relevant service budgets at the start of the year.</p> <p>This meant that the savings plans needed to be met in order to achieve a balanced position and any non-delivery of those savings would therefore result in an overspend in that service area, unless additional income was generated or alternative savings were identified and delivered.</p> <p>The Council recognised at the outset that the 2016/17 budget was challenging because of the level of savings it needed to achieve and the expected service pressures in Adults & Health and Children & Families. This picture is consistent across all upper tier authorities.</p> <p>There is regular reporting to the Cabinet of the expected financial position for the year and any management action that is required.</p> <p>The reported figures for 2016/17 were as follows:</p> <table border="1" data-bbox="1037 847 2112 1262"> <thead> <tr> <th></th> <th>Quarter 1 Reported to cabinet in September 2016</th> <th>Quarter 2 Reported to cabinet in November 2016</th> <th>Quarter 3 Reported to cabinet in February 2017</th> <th>Quarter 4 (outturn) Reported to cabinet in June 2017</th> </tr> </thead> <tbody> <tr> <td>Expected overspend (£m)</td> <td>24.087</td> <td>16.507</td> <td>7.472</td> <td>7.049</td> </tr> <tr> <td>Expected overspend (% of budget)</td> <td>7.7%</td> <td>5.3%</td> <td>2.4%</td> <td>2.3%</td> </tr> </tbody> </table> <p>It is always difficult to project the year-end position with any certainty after the first three months of the year and the picture tends to become clearer as time passes. As can be seen, the Council was projecting a significant overspend at the start of the year and although it was able to reduce this significantly, the year-end position shows an overspend of approximately £7m.</p>		Quarter 1 Reported to cabinet in September 2016	Quarter 2 Reported to cabinet in November 2016	Quarter 3 Reported to cabinet in February 2017	Quarter 4 (outturn) Reported to cabinet in June 2017	Expected overspend (£m)	24.087	16.507	7.472	7.049	Expected overspend (% of budget)	7.7%	5.3%	2.4%	2.3%
	Quarter 1 Reported to cabinet in September 2016	Quarter 2 Reported to cabinet in November 2016	Quarter 3 Reported to cabinet in February 2017	Quarter 4 (outturn) Reported to cabinet in June 2017													
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Key findings

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Significant risk	Work to address	Findings and conclusion																				
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Key findings

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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 conclusion		
<p>Strategic financial planning</p> <p>During 2016/17 the Council has experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends. These have been offset by underspends elsewhere and a draw down on its reserves.</p> <p>The existing Medium Term Financial Plan (MTFP) was approved by Full Council in February 2016 and covered the period 2016/17 to 2020/21. The plan showed a balanced budget for 2016/17 with a shortfall of £37.292m for the next four years. An update on the MTFP position was provided to Cabinet on the 26 September 2016. This showed that the position had moved on to a shortfall of £35.616m covering the period 2017/18 to 2020/21.</p> <p>As part of the budget setting process for 2017/18 the medium term financial plan was updated as at 6 February 2017 with target savings values identified across seven themed areas. Each theme is led by a Director and a Cabinet Member, supported by a Strategic Finance Manager. The 2017/18 budget has now been set with agreed savings of £18.119m. The cumulative shortfall over the remainder of the medium term financial plan period is now £19.5m as follows:</p> <p>2018/19 - £12.8m 2019/20 - £4.6m 2010/21 - £2.1m</p>	<p>We reviewed the budgets for 2016/17 and 2017/18 and the outturn reports for 2016/17.</p> <p>We reviewed the Council's medium term financial plan and its efficiency plan.</p>	Area Assumption Our view		
		Service demand	The Council expects individual services to manage increases in demand.	<p>As with inflation, demand pressures are not consistent across all areas of the Council's spend with some services e.g. Adults & Health, Children & Families and waste disposal showing year-on-year increases.</p> <p>Demand-led services have always been difficult to manage and additional resources may be needed in some areas to help manage this area.</p>
		Demographic changes	The Council expects individual services to manage demographic changes.	<p>The Council has assumed a modest increase in its Council Tax base (i.e. the number of properties) and assumes that services will be able to absorb this. However, demographic changes will be harder to manage. The Council expects that over a ten year period from 2011 to 2021 the number of people aged over 65 will increase by 30% and the number of children aged 0-15 will rise by around 11%.</p> <p>These changes will impact on the two most pressurised services areas in Somerset – Adults & Health, Children & Families – and, whilst they may achieve some success over the short term, it is hard to see how these changes can be absorbed over the longer term without the service re-design the Council acknowledges is required.</p>

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 conclusion
<p>Strategic financial planning</p> <p>During 2016/17 the Council has experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends. These have been offset by underspends elsewhere and a draw down on its reserves.</p> <p>The existing Medium Term Financial Plan (MTFP) was approved by Full Council in February 2016 and covered the period 2016/17 to 2020/21. The plan showed a balanced budget for 2016/17 with a shortfall of £37.292m for the next four years. An update on the MTFP position was provided to Cabinet on the 26 September 2016. This showed that the position had moved on to a shortfall of £35.616m covering the period 2017/18 to 2020/21.</p> <p>As part of the budget setting process for 2017/18 the medium term financial plan was updated as at 6 February 2017 with target savings values identified across seven themed areas. Each theme is led by a Director and a Cabinet Member, supported by a Strategic Finance Manager. The 2017/18 budget has now been set with agreed savings of £18.119m. The cumulative shortfall over the remainder of the medium term financial plan period is now £19.5m as follows:</p> <p>2018/19 - £12.8m 2019/20 - £4.6m 2010/21 - £2.1m</p>	<p>We reviewed the budgets for 2016/17 and 2017/18 and the outturn reports for 2016/17.</p> <p>We reviewed the Council's medium term financial plan and its efficiency plan.</p>	<p>Future savings</p> <p>As noted in our audit plan, the Council updated its medium term financial plan in February 2017 when the budget for 2017/18 was agreed.</p> <p>This showed the cumulative shortfall over the remainder of the period covered by the medium term financial plan period is now £19.5m as follows:</p> <p>2018/19 - £12.8m 2019/20 - £4.6m 2010/21 - £2.1m</p> <p>The 2017/18 budget included savings of £18.1m and delivering these and the shortfall in 2018/19 will be a real challenge. The use of reserves to achieve a balanced financial position is only a short-term solution.</p> <p>The Council can only achieve a sustainable financial position through service re-design and our experience shows that this takes time and investment and is unlikely to be achievable over the next 12 to 18 months. Robust challenge to the budgets and proactive monitoring is essential over the next two financial years.</p> <p>Conclusion</p> <p>Whilst significant pressures remain we conclude that overall the Council continues to have appropriate arrangements in place for sustainable resource deployment. Close in year monitoring and timely corrective action will continue to be need to ensure budgets are delivered and service redesign implemented.</p>

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 conclusion
<p>Ofsted inspection of children's services</p> <p>Following Ofsted's inspection of Children's Services in June 2013 and February 2015 'inadequate' ratings were given. The Department for Education has subsequently issued a direction notice to the Council. Improvement is now being monitored against nine priority areas.</p> <p>Arrangements with Essex County Council as Improvement Partners continue and are resulting in quarterly Quality and Performance Review meetings focussed on both operational and strategic improvement. The first of these took place in November 2015 and dates were scheduled until August 2016.</p> <p>There was an Ofsted monitoring visit to Somerset County Council Children's Services on 2/3 November 2016. Ofsted commented that SCC had "responded well" to its recommendations in 2015; Children and young people in need of help and protection receive a timely and effective response; and that partnerships are effective and strengthening. The overall findings from this monitoring visit indicated that the Local Authority was making adequate progress in improving services for children and young people in need of help and protection in Somerset.</p> <p>A second Ofsted monitoring visit on 24-25 January focussed on safeguarding/children in need. A further visit is planned for early May 2017 focussing on 'children looked after'.</p> <p>However, until there is a re-inspection the overall rating remains as 'inadequate'.</p>	<p>We reviewed update reports to the Council on the progress against the improvement plan.</p> <p>We reviewed the findings of the May 2017 monitoring visit by Ofsted.</p>	<p>There has been regular reporting and monitoring throughout the year of the actions taken to improve the service.</p> <p>In May 2017 Ofsted undertook a monitoring visit at Somerset County Council. Ofsted reported that overall outcomes for children are improving but that improvements that are still required to raise outcomes for children in Somerset. We did not take this into account in reaching your conclusion for 2016/17 as that only covers arrangements in place during the financial year. However, as the monitoring visit took place a month after the year end, it provides an indication of the arrangements in place in 2016/17.</p> <p>No formal re-inspection has taken place and so the rating of 'inadequate' still applies.</p> <p>Conclusion</p> <p>Whilst progress has been made, 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.</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: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

As noted earlier, we cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local elector. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our Value for Money conclusion.

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

We will provide the Audit Committee with an update once our work on the objection has been completed.

	Issue	Commentary at 19 July 2017
1.	Public interest report	<ul style="list-style-type: none"> Subject to completion of our consideration of the objection referred to above, at the time of writing we have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none"> At the time of writing we have not made any written recommendations that the Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> Subject to completion of our consideration of the objection referred to above, at the time of writing we have not needed to use this duty in 2016/17.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> At the time of writing we have not needed to use this duty in 2016/17.
5.	Application for judicial review	<ul style="list-style-type: none"> At the time of writing we have not needed to use this duty in 2016/17.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	99,873	tbc
Total audit fees (excluding VAT)	99,873	tbc

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

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- 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 Council. No non-audit services have been provided although the table below summarises the non-audit work we expect to complete later this year.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pension Return 16/17	4,200
• School centred initial teacher training	3,750
Total	£7,950

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. 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.

	Audit Plan	Audit Findings Report
Our communication plan		
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	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Authorisation of Journals To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that Somerset Pension Fund/ Somerset County Council includes in its journal policy the requirement that all journals should be authorised by a second person.</p>	Medium	<p>Somerset CC (SCC) finance officers do not share the view of the external auditors on the need to have journals authorised by a second person:- From a fraud perspective, there are controls already in place in the Accounts Payable (AP) and Accounts Receivable (AR) systems, including segregation of duties around key tasks. This is where the real risks lie. Journals do not actually involve expenditure or income, so the inherent risk to SCC is absolutely minimal. The 2016/2017 Quarter 4 audit of our Accounts Payable (creditors) system and the 2015/2016 Quarter 3 audit of our Accounts Receivable (debtors) system both provided "Reasonable Assurance". This work provides on-going evidence of the strength of controls in those systems fundamental to the Council's internal control framework.</p> <p>Each user of SAP has an individual ID that is registered against each transaction that the user makes. Any unusual suspicious journals are going to be traceable to a single member of staff.</p> <p>There are restrictions around the number of SAP users who can actually carry our journals – it is not as if this is standard functionality available to all users, but is restricted to key finance staff only. (These are very rarely AR and AP users).</p> <p>Key journals have other controls – in particular accruals over £25k do actually need to be signed off by a Strategic Manager before being processed.</p> <p>SCC's budget monitoring acts as another control in order to pick up rogue journals. Budget management / service budget holders would be surprised to see any transactions on their codes that they did not recognise and would investigate.</p> <p>No examples have been offered by either Grant Thornton or SWAP of journals where this has occurred – either fraudulently or by error. SCC has provided a full journal list to Grant Thornton for SCC .</p> <p>SCC has to consider the costs of control, which are potentially high. These may include – (i) the possible need to reconfigure SAP and to pay to do so, requiring journals to be authorised; (ii) the costs of maintaining GL authorisation lists in addition to AP / AR authorisation lists; and (iii) the costs of having additional finance staff involved in the process, both in terms of adding staff and in terms of slowing down bona fide accounting transactions.</p>	Not applicable

B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report on its financial statements and an 'except for' Value for Money Conclusion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL

We have audited the financial statements of Somerset County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow 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 Director of Finance and Performance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and Performance (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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Performance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report 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 as at 31 March 2017 and of its 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 and the Annual Governance Statement 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.

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 January 2015 Ofsted inspectors carried out inspections of 'services for children in need of help and protection, children looked after and care leavers' and a 'review of the effectiveness of the local safeguarding children board', both of which were found to be inadequate. The report concluded that:

- oversight, scrutiny and challenge from corporate leaders has not been sufficiently robust;
- chronic instability at all levels of the organisation, poor practice and a culture of mistrust have been allowed to persist.

A multi-agency plan was developed and approved in May 2015, detailing the key focus areas to deliver rapid improvement in Somerset's children's services. There has been regular reporting and monitoring throughout the year of the actions taken to improve the service. In May 2017 Ofsted undertook a monitoring visit at Somerset County Council. Ofsted reported that overall outcomes for children are improving but that further improvements are still required to raise outcomes for children in Somerset.

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 paragraphs above, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 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.

In addition:

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice 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 2017. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Peter Barber
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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July 2017



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