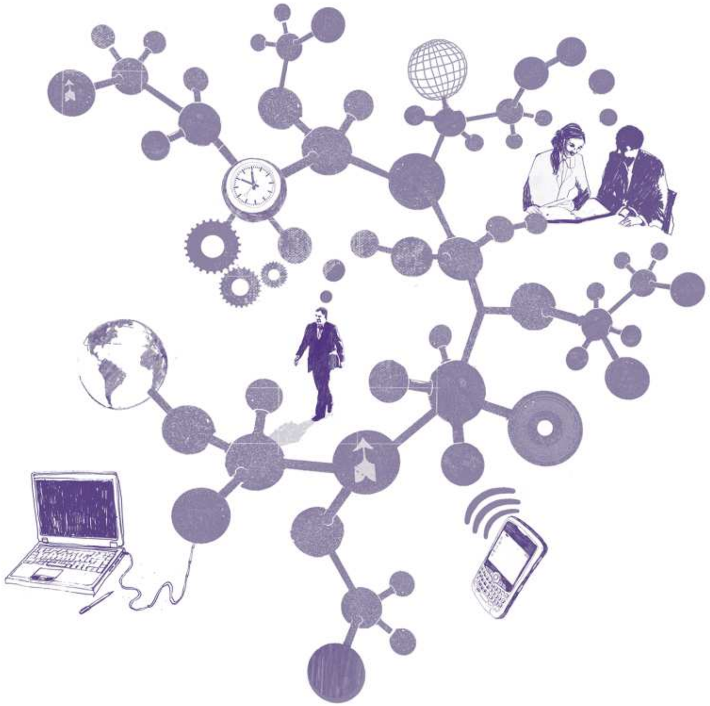
Item 6

The Annual Audit Letter for Somerset County Council

Year ended 31 March 2016

18 October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Somerset County Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 28 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 July 2016.

Value for money conclusion - 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 but at the date of our opinion, the Authority had yet to deliver all the required actions highlighted in the report to implement and embed the improvement strategies which are due to be completed by September 2016.

This matter, at the point of issuing our audit opinion on 28 July 2016, was 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 2015, except for the effects of the matter(s) described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

We therefore qualified our value for money conclusion in our audit opinion on 28 July 2016.

Whole of government accounts
Our work on the Council's consolidation return was completed after we gave the audit opinion on the financial statements on 28 July 2016. We have followed the guidance issued by the NAO and issued an unqualified report on 17 October 2016.

Certificate
We certified that we had completed the audit of the accounts of Somerset County Council in accordance with the requirements of the Code on 18 October 2016.

Certification of grants
The Council has requested that we undertake the audit of the following grants in 2015/16 a additional fee work:

- Major Transport Grant 14/15 – Taunton Northern Inner Distributor Road. We completed this audit in May 2016 and issued a reasonable assurance report by the deadline of 31 May 2016.

- Teachers' Pensions Contributions Return on behalf of Teachers' Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Audit Progress Report.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes, including:

- an efficient audit resulting in an opinion two months in advance of the previous year
- Sharing our insight – we provided regular audit committee updates covering best practice
- Thought leadership – we have made available to you on a timely basis our relevant publications
- Supporting development – we have provided workshops and training for your staff

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £14.559 million , which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas in the notes to the financial statements such as disclosure of members' allowances, senior officer's remuneration and disclosure of auditor's remuneration.

We set a lower threshold of £728,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

Pension Fund

For the audit of the Somerset County Council Pension Fund accounts, we determined materiality to be £15.950 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as disclosure of auditor's remuneration. We set a threshold of £797,000 above which we reported errors to the Pensions Board and the Audit Committee.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of property, plant and equipment The Council carries out annual valuations that allow it to consider the entire asset portfolio for all property required to be measured at fair value, whilst retaining a rolling programme that ensures all assets are valued 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. The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include investment property in its financial statements at fair value, as defined by IFRS 13. The basis on which fair value is defined for investment property is different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS13 which the Council needs to comply with.	As part of our audit work we: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated 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. **We identified the following issues in relation to this risk:** An annual review of 20% of all asset valuations is undertaken to identify significant movements within asset classes to determine whether a revaluation is required. Through discussion with management, and undertaking a benchmarking exercise as part of the audit against national indices, it was noted that the cumulative impact of not revaluing assets (land and buildings) where the annual review has not indicated a significant change, had not been considered. This is applicable to those assets valued on a direct replacement cost basis. Therefore the Council could not provide assurance that there was not a material difference between the carrying value and fair value of these assets at 31 March 2016. This was discussed with Senior Finance Officers who subsequently undertook an exercise to ascertain whether the difference was material. We reviewed the results from this testing and concurred with their view that there was not a material difference between the carrying value and fair value at the balance sheet date. To ensure that in future there is not a material difference between carrying value and fair value, management has agreed that all assets valued on a direct replacement cost will be reviewed annually to establish the cumulative difference from the date of the last valuation.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 63% of its total liabilities. The value of the pension fund net liability is estimated by specialist actuaries.	As part of our audit work we have: • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Undertaken a walkthrough of the key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained 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. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. We did not identify any issues to report
Accounting for the Better Care Fund (BCF) The accounts included a new material pooled budget disclosure, and underlying transactions on the BCF. Judgement was required in assessing the required accounting treatment. Risks identified included: • Has the Council entered into appropriate arrangements to account for BCF monies? • Does the Council have appropriate processes in place to obtain the information it needs to reflect the correct transactions, balances and disclosures in its accounts? • Are the judgements made by the Council in assessing its control over the funds reasonable, and hence has it adopted the correct accounting treatment in the accounts? • Do BCF transactions, balances and disclosures in the accounts agree to the underlying evidence?	As part of our audit work we have: • Identified the controls put in place by management to ensure that the BCF accounting entries and disclosures were not materially misstated. We assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Undertaken a review to ensure that signed s75 agreements were in place for all the BCF transactions covered by pooled budget accounting. • Reviewed the Council's processes for obtaining the information it needed to reflect the correct transactions, balances and disclosures in its accounts. • Reviewed the reasonableness of the Councils judgements in assessing the Council's controls over the funds and hence adopted the correct accounting treatment in the accounts. • Undertook a review to ensure that BCF transactions, balances and disclosures in the accounts agreed to the underlying evidence. We did not identify any issues to report

Audit of the accounts – Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Heart of the South West Local Enterprise Partnership (LEP) The Council (as the accountable body) has taken on a new project with material sources of income having been successful in its bid for Growth Deal Funding from the Government's Local Growth Fund. This is a new source of funding for 15/16 and judgement is required in assessing the accounting treatment. Risks identified include: • Does the Council have appropriate arrangements in place to account for the income and subsequent expenditure • Does the Council have appropriate processes in place to obtain information needed to reflect the correct transactions, balances and disclosures in its accounts • Are the judgements made by the Council in assessing its control over the funds reasonable and has the correct accounting treatment been adopted • Do LEP transactions, balances and disclosures in the accounts agree to the underlying evidence	As part of our audit work we: • Identified the controls put in place by management to ensure that the LEP accounting entries and disclosures were not materially misstated. We assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the Council's processes for obtaining the information it needed to reflect the correct transactions, balances and disclosures in its accounts. • Reviewed the reasonableness of the Council's judgements in assessing its controls over the funds to ensure the correct accounting treatment in the accounts. • Undertook substantive testing of projects to ensure that LEP transactions, balances and disclosures in the accounts agreed to the underlying evidence. We did not identify any issues to report.

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
Level 3 Investments – Valuation is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	As part of our audit work we: • We updated our understanding and discussed the cycle with relevant personnel from the pension finance team during the final accounts audit including a review of supporting documentation. • We performed a walkthrough test of the controls identified in the cycle. • For a sample of investments, we tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • We reviewed the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • We reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • We reviewed the competence, expertise and objectivity of any management experts used. We did not identify any issues to report.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The Council made the draft accounts available for audit in early June 2016, in line with the agreed advanced timetable, and provided a good set of working papers to support them. This voluntary commitment by the Council to bring forward their completion this year provided a strong platform for the requirement under the regulations for approval by the 31 May by the 2017/18 financial year. The finance team responded promptly and efficiently to our queries during the course of the audit. Issues identified in prior years had been fully addressed and no further issues in these areas were noted.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 28 July 2016. There were no adjustments affecting the Council's reported year end financial position of net expenditure of £379.393million (£368.961million in 2014/15).

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts reported in the Council's financial statements on 28 July 2016, in advance of the 30 September 2016 national deadline.

The draft financial statements were presented for audit in early June 2016 alongside the Council's financial statements. They were free from material error and supported by good quality working papers. We received timely responses to our queries.

Issues arising from the audit of the pension fund accounts

We reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Pensions Board on 22 July 2016 and to the Council's Audit Committee on 28 July 2016. We did not identify any adjustments affecting the Fund's reported financial position. The financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £1,598million (£1,595million in 2014/15and net liabilities at the end of the year of £1,334million (£1,433million in 2014/15).

Annual Governance Statement and Narrative Report

We were also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate on 17 October 2016 which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.
The two key risks we identified and the work we performed are set out in table 2 overleaf.

We presented our Audit Findings to the Audit Committee on 28 July 2016.

Overall VfM 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 issued a qualified 'except for' conclusion on 28 July 2016 on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

Update on the two significant risks since the VFM conclusion was issued

Both of the significant risks we identified and reported on in our Audit Findings Report to the Audit Committee in July 2016 continue to be shown as 'red risk' in the Council's Performance Report to Cabinet on 26 September 2016.

Strategic Financial Planning

The Council's projected outturn for 2016/17 shows a budget Overspend of £24.087m when compared to the current Revenue Budget. This represents 7.7% of the overall budget. Projections are based on the latest information available at the time of the report (September 2016). Part of the overspend is planned and will be funded by £1.468m use of the new flexibilities on Capital Receipts. The net position is therefore a projected overspend of £22.619m.

Ofsted inspection of children's services

Safer Children and Better Care has been identified as a 'red risk' in the Council's Performance Report presented to Cabinet on 26 September 2016. It was reported that the overall impact of the nine priorities was on a far more secure footing now with increased stability within key service areas. Performance was improving and a three year children and young people's plan had been developed that reflected the commitment of the Leader for children's services to be 'good' or better in three years. However, despite this, until a re-inspection, services are judged inadequate and there is a corporate risk for Safeguarding Children that has a very high risk rating.

The outcome of the quarterly monitoring visit from Ofsted in September 2016 has not yet been reported.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
Strategic financial planning (Informed decision making) During 2015/16 the Council experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends. These were offset by underspends elsewhere and a draw down on its reserves. In February 2016 the Council revised its Medium Term Financial Plan (MTFP) in light of the settlement figure announced on 17 December 2015. This left the Council with a cumulative indicative funding shortfall of £38 million up to 2020/21 with the funding gaps front loaded in 2017/18 (£17million) and 2018/19 (£12.5million). It is likely that there will be further pressures as the MTFP is progressed.	We reviewed the project management and risk assurance frameworks put in place by the Council to establish how it was identifying, monitoring, reporting and managing these risks.	We concluded that the Council had well established arrangements in place for monitoring, updating and reporting the in year financial position. The 2015/16 revenue outturn position was a £2.433m (0.9%) underspend against budget. Within this outturn position there were significant overspends in Children and Families. Proactive action was taken early during 2015/16 to manage the demand lead pressures and there were regular budget updates to Cabinet on the progress with actions aimed at bringing spend back in line. In July 2015 the Council raised in its Council Performance Monitoring Report a 'red risk' for 'Manage Effective Financial Performance and Planning' because of ongoing significant pressure on some of its services, with the most significant overspend forecast on Children's Social Care due to increased staffing requirements. This risk looked at the 'in year' performance through on-going capital and revenue spend monitoring. As at March 2016 this risk had been reassessed as a 'green risk' as there had been improved performance. Whilst a small underspend was delivered for 2015/16 there continues to be a significant pressure on some of the Council's services, with the most significant overspend on Children's Social Care due to increased staffing requirements as forecast during the year. The level of reserves is now at the lower limit of what has been the traditional view of the range at just £15m (the lowest for six years). We recognise that the size of the savings gap to 2020/21 will require focus and continued close monitoring. The Council has comprehensive Medium Term Financial Planning (MTFP) arrangements in place which is kept under review throughout the year by both officers and members. The forecast MTFP for the period 2017/18 to 2020/21 shows that current future service pressures significantly outstrip the resources available to the Council. This will require further difficult decisions, clear prioritisation and further efficiencies to ensure that the Council has a sustainable future. We are satisfied that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
Ofsted inspection of children's services 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. 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 are scheduled until August 2016. The Council is currently subject to a follow up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.	We reviewed update reports to the Council on the progress against the improvement plan. We also reviewed any further updates from Ofsted as they become available and took these into account in forming our conclusion.	We concluded that the Council had improved the underlying foundation arrangements and many of the deliverables of the Improvement Programme had been delivered on target but embedding these changes will continue until September 2016. However, since the most recent inspection rated the service as 'inadequate' it has not yet been reassessed by Ofsted. Therefore the risk has not been sufficiently mitigated and an 'Except for' VFM conclusion was issued for 2015/16 in respect of the Children's Services. Children's Services, in particular Children Can Feel Safe and Protected, has been identified as a red risk on the Council's Performance Monitoring Report and continues to be a red risk at the end of March 2016.

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit

We worked with you to deliver the accounts audit by the end of July 2016, two months in advance of the previous and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work. To provide further support on your early closure of accounts we have also shared with you our insights in our publication "Advanced closure: Transforming the financial reporting of local authority accounts". Your staff have also shared their experience by participating in a presentation with their auditor in an Advanced closure workshop we ran for other local government clients on 2 October 2016.

Supporting development

During the year your officers attended workshops we provided on:

- Accounts Closedown 2015-16
- Accounting for the Better Care Fund and Pooled Budgets
- Income generation
- Highways Network Asset

We also provided details of a member training programme on governance- Supporting members in governance.

Sharing our insight

We provided regular audit committee updates throughout the year covering emerging national issues and developments that we thought would be relevant to you. Areas we covered included, e.g.

- Innovation in public financial management
- Care Act first-phase reforms and local government new burdens
- Financial sustainability of local authorities: capital expenditure and resourcing
- Delivering new homes – Routes for development for Local Authorities
- The changing face of Corporate Reporting
- Fighting fraud and Corruption Locally
- Cyber security in the public sector
- Brexit.

Working with the Council (continued)

Our work with you in 2015/16

Thought leadership
We have shared with you our publications on:

- Knowing the Ropes – Audit Committee Effectiveness Review
- Growing healthy communities: The Health and wellbeing index
- Making devolution work: A practical guide for local leaders
- Reforging local government: Summary findings of financial health checks and governance reviews
- Turning up the volume: Business Location Index
- Spreading their wings: Building a successful local authority trading company
- Better Together: Building a successful joint venture (the Council's own experience with Southwest One was featured in this publication). We will continue to support you as you consider greater use of alternative delivery models for your services.
- Making decentralised energy happen

Providing information
We provided you with a demonstration of our Place Analytics online tool. This contains a wealth of data on the economy, society, environment, markets and consumers to help drive decision-making through insight and analytics. We linked this to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country. This is linked to driving performance improvement.

Support outside of the audit
Our advisory team have been in discussion with you on your plans for devolution.

Working with the Council

Working with you in 2016/17
Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with your finance staff. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. We are planning to undertake some early testing in November 2016 which will focus on obtaining an understanding of your policies and procedures for identifying and valuing the opening balance of the Highways network Asset at 1 April 2016.

Our discussions with Council Officers to date have highlighted that you are making good progress towards identifying and valuing HNA components.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Other areas

We will also continue to work with you and support you over the next financial year on other areas informed through discussion with you and our wider local government sector insight.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	99,873	99,873	133,164
Statutory audit of Pension Fund	23,859	23,859	23,859
Total fees (excluding VAT)	**123,732**	**123,732**	**157,023**

Fees for other services

Service	Fees £
Audit related services:	
• Teachers' Pensions Return	4,200
• Major Transport Claim 2014/15	3,750
Non-audit services None agreed	Nil

Reports issued

Report	Date issued
Audit Plan	2 March 2016
Audit Findings Report	14 July 2016
Annual Audit Letter	18 October 2016

Grant Thornton

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