

Agenda

Audit and Governance Committee

Friday, 24 March 2017, 10.00 am
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Audit and Governance Committee

Friday, 24 March 2017, 10.00 am, County Hall, Worcester

Membership: Mr N Desmond (Chairman), Mrs S Askin, Mr S J M Clee,
Mr L C R Mallett (Vice Chairman), Mr R J Sutton and Mr P A Tuthill

Agenda

Item No	Subject	Page No
1	Apologies and Named Substitutes	
2	Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Director of Resources in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 23 March 2017). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 9 December 2016. (previously circulated – pink pages)	
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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 15 March 2017

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**AUDIT AND GOVERNANCE COMMITTEE
24 MARCH 2017****EXTERNAL AUDIT PLAN – WORCESTERSHIRE COUNTY
COUNCIL**

Recommendation

1. **The Committee is asked to note the content of the Audit Plan for Worcestershire County Council as set out as an Appendix.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit plan for the Council which is attached as an Appendix.
3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

Contact PointsCounty Council Contact Points

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Supporting Information

- Appendix - The Audit Plan for Worcestershire County Council

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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The Audit Plan for Worcestershire County Council

Year ended 31 March 2017

24 March 2017

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Dear Members of the Audit and Governance Committee

Audit Plan for Worcestershire County Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Worcestershire County Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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 look forward to working with you during the course of the audit.

Yours sincerely
John Gregory
Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

New Financial System

From 1 April 2017 the accounts will be produced using a new financial system. While this will have limited impact on the audit for the 2016/17 financial statements it represents a significant investment of time for the finance staff in the run up to implementation.

Ofsted report – Children's services

In January 2017 the Council received an inadequate rating from Ofsted on Children's services. The report highlighted serious failures in the services provided to children who need help and protection and concluded that this corporate failure leaves children at continued risk of significant harm.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved power to Local Authorities. As reported in the 15th December 2016 Cabinet report the Council plan to address the forecast savings requirement of £2.9m as a result of updating the Medium Term Financial Plan taking account of the Autumn Statement

Medium Term Financial Plan

Beyond 2017/18 the Council have significant shortfalls in funding, with the gap between funding available and service costs rising to £31m in 2018/19. While this falls to £22m for 2019/20 and 2020/21 this represents a significant challenge to ensure that services are sustainable in the medium to long term.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

PFI Accounting Entries

The energy from waste plant is due to become operational from February 2017. This will require the accounting entries associated with the plant to be reviewed to ensure that it is correctly classified on the balance sheet at the year end.

Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by 30th June 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will review the Council's response to the recent Ofsted report.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £15.498m (being 2% of gross revenue expenditure). In the previous year, we determined materiality to be £15.516m (also 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £774,900.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditor's remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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 Worcestershire 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 • The culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Worcestershire County Council.</p>
Management over-ride of controls	<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>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of the journal entry process <p>Further work planned:</p> <ul style="list-style-type: none"> • Further review of accounting estimates, judgments and decisions made by management • Testing of unusual journal entries back to supporting documentation • Review of unusual significant transactions

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 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 and Ireland) 550)

Significant risks identified (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 date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Changes to the presentation of local authority financial statements	<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>	<p>Work planned:</p> <ul style="list-style-type: none"> We will document and evaluate the process for the recording of the required financial reporting changes to the 2016/17 financial statements. We will review 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 will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.
Energy for Waste PFI Accounting Entries	<p>The Energy from Waste PFI is due to become operational in February 2017 which will result in the asset being bought onto the Council's balance sheet.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the accounting transactions in respect of the Energy for Waste PFI to ensure that they are in line with guidance.

Significant risks identified (continued)

Significant risk	Description	Audit procedures
Valuation of pension fund net liability	<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>Work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.
Property, plant and equipment	<p>The Asset register is currently held on a spread sheet. As part of the introduction of the new financial system this information will be recorded in a new fixed asset module. Part of this transfer of data will involve a data cleanse exercise, which may impact on the year end position for 2016/17.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> Discussed with the Council the planned work to identify and document the controls in place over the exercise. <p>Further work planned:</p> <ul style="list-style-type: none"> Review work completed to ensure that the assets transferred to the new general ledger is accurate. Understand the impact of any changes to the asset register on the 2016/17 financial statements. Substantively test any material changes to the 2016/17 accounts as a result of this exercise.

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Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have updated our understanding and discussed the cycle with relevant personnel from the finance team. We have conducted a walkthrough of the key controls for this system. <p>Further work planned:</p> <ul style="list-style-type: none"> We will search for unrecorded liabilities by reviewing payments after the year end. We will review the Council's accruals process and test accordingly (including goods received).
Employee remuneration	Employee remuneration accruals are understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have updated our understanding and discussed the cycle with relevant personnel from the payroll and finance team. We have conducted a walkthrough of the key controls for this system. We have completed the trend analysis for 9 months of the year and also tested 9 months of amounts paid to individuals. <p>Further work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger. We will complete the trend analysis of the monthly payroll data for the remaining months of the year. We will test amount paid to individual employees on a sample basis.

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"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 and Ireland) 315)

Other risks identified (continued)

Going concern

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

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures required by the Code of Practice including the Expenditure and Funding Analysis
- Officers' remuneration note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note

Value for Money

Background

The Code requires us to consider whether 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 31 July 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Medium Term Financial Plan The budget position for 2017/18 and beyond remains challenging. The December 2016 cabinet report highlighted a gap of £2.9m needed to balance the budget for 2016/17. It further set out the level of savings required in future years, with the shortfall in funding for 2018/19 of £31m, and then falling to £22m in years 2019/20 and 2020/21.</p>	<p>This links to the Council's arrangements for ensuring it plans finances effectively to support its strategic functions, and its arrangements for ensuring informed decision making.</p>	<p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>
<p>Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in January 2017 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this presents a significant risk to the Council's arrangements.</p>	<p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>We will review the Council's response to the recent report and take these into account in forming our conclusion.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

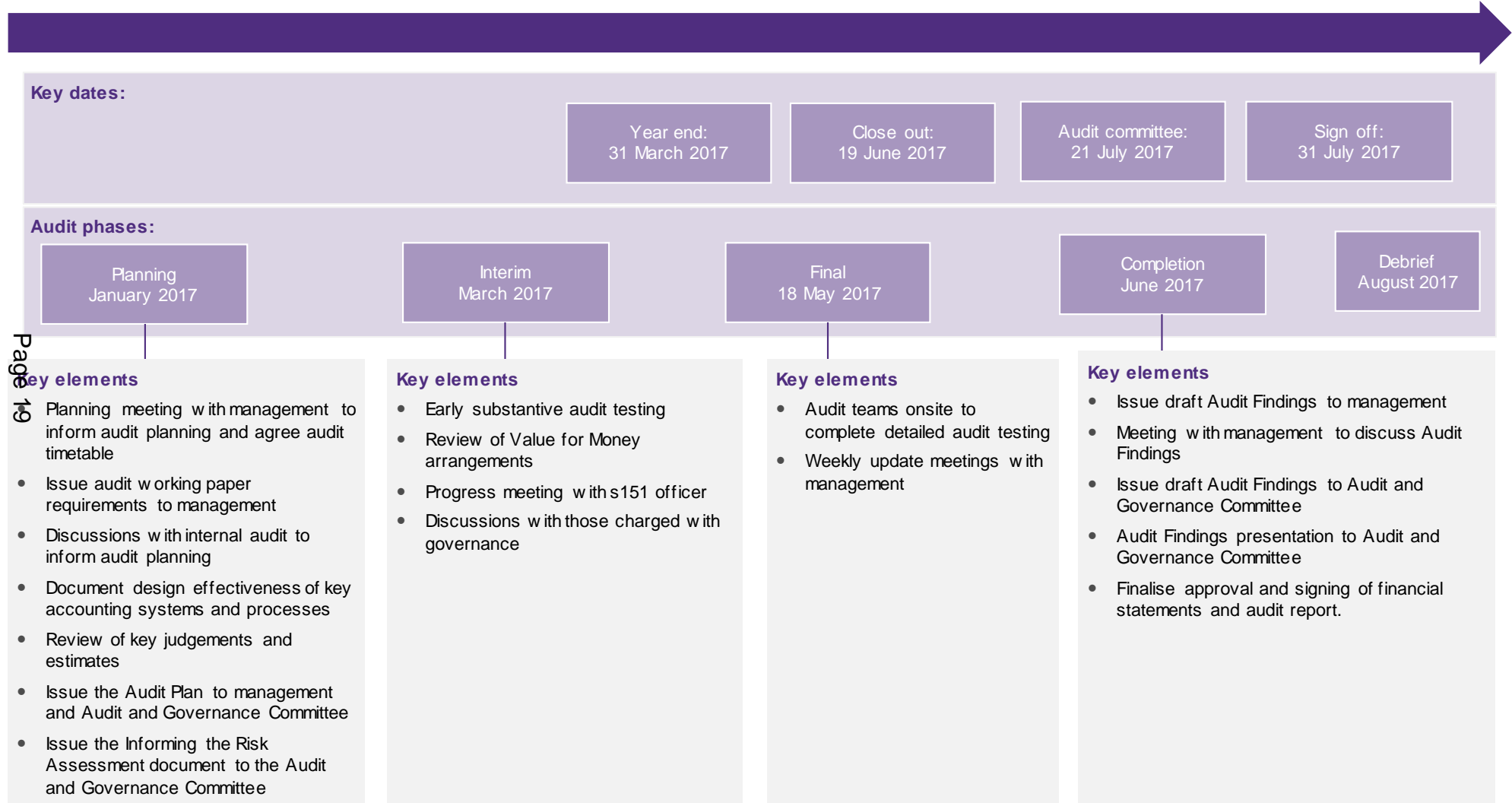
	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements.	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>We have however noted that the Internal Audit Service has not yet had an independent assessment as required by the Public Sector Internal Audit Standards. The standards requires the internal audit service to have an independent review once every five years and for full compliance this review should be completed by the 1st April 2018.</p>
Integrity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p> <p>Our work has however identified a number of recommendations for improvement, which are currently under consideration by officers.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	Our work has not identified any weaknesses which impact on our audit approach.

The audit cycle

The audit timeline



Audit Fees

Fees

	2016/17	2015/16
Council audit	£95,446	£95,446
Total audit fees (excluding VAT)	£95,446	£95,446

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list,
- The scope of the audit, and the Council and its activities, have not changed significantly,
- The Council will make available management and accounting staff to help us locate information and to provide explanations, and
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Worcestershire County Council . The following audit related and non-audit services were identified for the Council for 2016/17 to date:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
None	None	
Non-audit related		
CFO Insights (Full cost for 2-year subscription)	9,995	Online tool for Council's aspiring to improve the financial performance of their Local Authority

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

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Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan 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 and includes nationally prescribed and locally determined work (<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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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

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AUDIT AND GOVERNANCE COMMITTEE
24 MARCH 2017**EXTERNAL AUDIT PLAN – WORCESTERSHIRE COUNTY**
PENSION FUND

Recommendation

1. **The Committee is asked to note the content of the Audit Plan for Worcestershire County Pension Fund as set out as an Appendix.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit plan for the Pension Fund which is attached as an Appendix.
3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

Contact PointsCounty Council Contact Points

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Specific Contact Points for this report

Sean Pearce, Head of Corporate Financial Strategy

Ext: 6268.

Email: spearce@worcestershire.gov.uk

Supporting Information

- Appendix - The Audit Plan for Worcestershire County Pension Fund

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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The Audit Plan for Worcestershire County Pension Fund

Year ended 31 March 2017

24 March 2017

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Worcestershire County Pension Fund
County Hall
Spetchley Road
Worcester
WR5 2NP

24 March 2017

Dear Members of the Audit and Governance Committee

Audit Plan for Worcestershire County Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Worcestershire County Pension Fund, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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 look forward to working with you during the course of the audit.

Yours sincerely

John Gregory

Engagement Lead

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Chartered Accountants

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has improved from the date of the last valuation. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

New Financial System

From 1 April 2017 the accounts will be produced using a new financial system. While this will have limited impact on the audit for the 2016/17 financial statements it represents a significant investment of time for the finance staff in the run up to implementation.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

Revised disclosures

The key area reported in the audit findings report last year was the need to enhance the disclosures, particularly around level 3 investments. CIPFA has issued revised example accounts which should be considered as part of the accounts preparation process.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 30th June 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £19,523k (being 1% of net assets). In the previous year, we determined materiality to be £19,873k (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £976k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures.	5% of the value of expenses.
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made. Individual mis-statements will also be evaluated with reference to how material they are to the other party.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p>Page 32</p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Worcestershire County Pension Fund, 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 • The culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Worcestershire Pension Fund.</p>
<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>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and controls. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries. • Review of unusual significant transactions

"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 and Ireland) 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 and Ireland) 550)

Significant risks identified (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 date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Level 3 Investments Valuation is incorrect	<p>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.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have updated our understanding of your process for valuing level 3 investment through discussions with relevant personnel from the Pension Fund during the interim audit. We have performed walkthrough tests of the controls identified in the process. <p>Further work planned:</p> <ul style="list-style-type: none"> For a sample of investments, test valuations by obtaining and reviewing the audited accounts, (where available) 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 31st March with reference to known movements in the intervening period. Review 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. To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. Review the competence, expertise and objectivity of any management experts used.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment Income Page 34	Investment activity not valid. Investment income not accurate. (Accuracy)	Work completed to date: <ul style="list-style-type: none"> Existing key controls have been walked through to confirm operational effectiveness. Further work planned: <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances. Complete a predictive analytical review for different types of investments.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	Work completed to date: <ul style="list-style-type: none"> Existing key controls have been walked through to confirm operational effectiveness. Further work planned: <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances. Test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices.
Contributions	Recorded contributions not correct (Occurrence)	Work completed to date: <ul style="list-style-type: none"> Existing key controls have been walked through to confirm operational effectiveness. Further work planned: <ul style="list-style-type: none"> Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Existing key controls have been walked through to confirm operational effectiveness. <p>Further work planned:</p> <ul style="list-style-type: none"> Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Existing key controls have been walked through to confirm operational effectiveness. Sample testing up to month 10 of changes to member data made during the year to source documentation. <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over annual/monthly reconciliations and verifications with individual members. Sample testing for months 11 and 12 of changes to member data made during the year to source documentation.

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"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 and Ireland) 315)

Other risks identified (continued)

Going concern

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

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Transfers in
- Transfers out
- Administrative expenses
- Cash deposits
- Current assets
- Non current assets
- Current liabilities
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

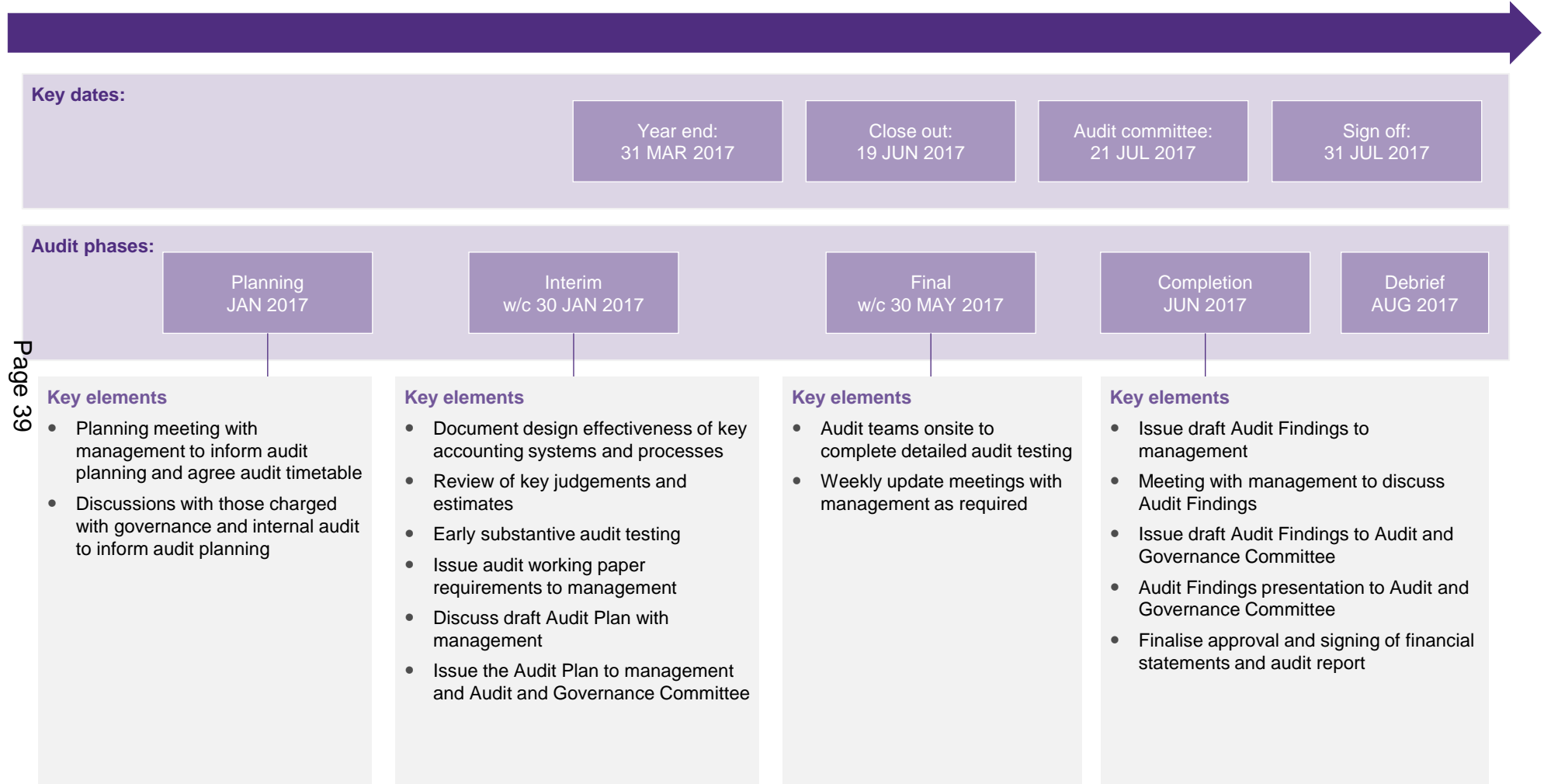
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on investment management. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>We have however noted that the Internal Audit Service have not yet had an independent assessment as required by the Public Sector Internal Audit Standards. The standards requires the internal audit service to have an independent review once every five years and for full compliance this review should be completed by the 1st April 2018.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.</p>
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p> <p>Our work has however identified a number of recommendations for improvement, which are currently under consideration by officers.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach.
Early substantive testing	We have carried out testing of changes to member data recorded to month ten. Testing identified that one member had been incorrectly classified as deferred rather than frozen.	Officers have been able to isolate this population and are reviewing the data to determine if this is an isolated error. We will review the results of this work when we complete the testing at year end.

The audit cycle

The audit timeline



Audit Fees

Fees

	2016/17 £	2015/16 £
Pension fund audit	24,963	24,963
IAS 19 fee variation	1,193	1,193
Total audit fees (excluding VAT)	26,156	26,156

Our fee assumptions include:

Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list

- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the PSAA regime and is consistent with that requested in prior years
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Worcestershire County Pension Fund. The following audit related and non-audit services were identified for the Fund for 2016/17 to date:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
None	None	
Non-audit related		
None	None	

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Administering Authority's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

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Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan 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 Fund'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 and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund 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 Fund is fulfilling these responsibilities.

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

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AUDIT AND GOVERNANCE COMMITTEE
24 MARCH 2017**EXTERNAL AUDIT PLAN – INFORMING THE AUDIT RISK
ASSESSMENT FOR WORCESTERSHIRE COUNTY COUNCIL
AND PENSION FUND**

Recommendation

- 1. The Committee is asked to note the content of the External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund as set out as an Appendix.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund which is set out as an Appendix.
3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

Contact PointsCounty Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix - External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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Informing the audit risk assessment for Worcestershire County Council and Pension Fund

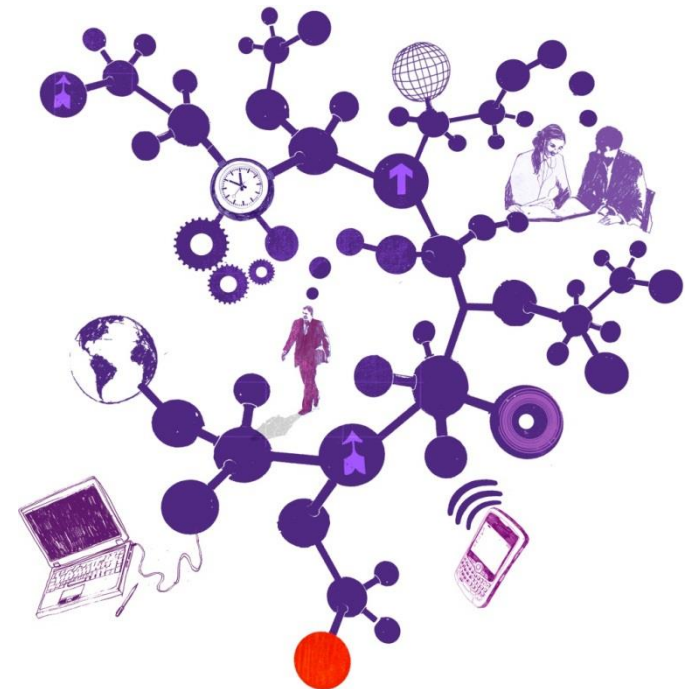
Year ended

31 March 2017

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- Fraud,
- laws and regulations,
- going concern,
- accounting estimates, and
- related parties.

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud risk assessment

Question	Management response
<p>1. What is officers' assessment of the risk of material misstatement in the financial statements due to fraud? Is this consistent with the feedback from your risk management processes?</p>	<p>The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council clear and effective arrangements are in place to both prevent and detect fraud.</p>
<p>2. Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2016? If so how does the Audit and Governance Committee respond to these?</p>	<p>No material instances of fraud have been identified in 2016/17. From time to time internal audit are asked to undertake investigations into alleged fraudulent or inappropriate activity. Often there are recommendations made as a result of these investigations, however they rarely result in clear evidence of fraudulent activity. No significant cases have been identified that represent systematic fraudulent activity.</p>
<p>3. Do you suspect fraud may be occurring, either within the Council or within specific departments? Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>We do not expect material fraud is occurring within the Council. However, evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring at Worcestershire. In order to mitigate fraud occurring the Council has a number of processes in place. The Internal Audit plan incorporates consideration of potential fraud risks and how these are to be mitigated, for example through the reviews of the Council's key systems and the work it completes on the Council's Anti-Fraud processes to ensure that they are fit for purpose. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register.</p>

Fraud risk assessment (continued)

Question	Management response
<p>4. Are you satisfied that the overall control environment, including: the process for reviewing the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Yes.</p> <p>The Council's management have been asked to state in their Director Assurance Statements that they are not aware of any significant control failures occurring in 2016/17.</p> <p>In addition to segregation of duties, the Council has a number of other control processes in place to prevent, deter or detect fraud, including the use of exception reports to identify unusual transactions which could be fraudulent.</p>

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Fraud risk assessment (continued)

Question	Management response
<p>5. How do you encourage, and communicate to employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud?</p> <p>Page 54</p>	<p>A confidential fraud reporting hotline is available for concerns to be reported. To the end of December 2015 seven hundred and eighty six people have undertaken the Internal Fraud e-learning module. The Council's Whistleblowing and Anti-Fraud and Corruption Policies are available on the Intranet. In order to keep abreast with current developments, Internal Audit sends a representative to Midland Counties Chief Internal Auditor group and will be attending the Midlands Fraud Forum in February. CIPFA and Barclays Bank Seminars have also been attended as well as receiving regular updates from the Institute of Internal Auditors.</p>
<p>6. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are not any significantly high-risk posts identified.</p>

Fraud risk assessment (continued)

Question	
<p>7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The 2015/16 financial statement disclosure of related party transactions does not identify any potential fraud risk, and none is anticipated in the preparation work for the 2016/17 financial statements. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p>8. What arrangements are in place to report fraud issues to Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Internal Audit report to Audit & Governance Committee on a quarterly basis any fraud issues. It is also intended to produce an annual report on Counter fraud work. The Audit and Governance Committee may seek further assurance from Internal Audit or management regarding fraud and breaches of internal control.</p>
<p>9. Are you aware of any whistleblowing reports under the Bribery Act since 1 April 2016? If so how does the Audit and Governance Committee respond to these?</p>	<p>No</p>

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Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>The role of the Monitoring Officer is defined in the Constitution as "responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet."</p> <p>The Monitoring Officer is supported by a team of Legal and Democratic Services Officers who advise him of any matters of concern.</p> <p>The Monitoring Officer sees all reports to the Chief Officer Management Board and all reports to Members.</p> <p>All reports to Members are required to have a legal implications section and a risk section.</p> <p>The section 151 officer is responsible for preparing the accounting statement in accordance with relevant legal and regulatory requirements.</p>
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The Monitoring Officer (or representative) attends Audit and Governance Committee Meetings when legal issues arise and advises members on any areas of concern.
3. Have there been any instances of non-compliance with law and regulation since 1 April 2016 with and on-going impact on the 2016/17 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Council has an internal Insurance Team, under the line management of the S151 Officer, to advise and monitor any litigation / claims. This is in addition to services undertaken by the internal Legal and Democratic services team. Any issues are brought to the attention of the Monitoring Officer and/or S151 Officer as they arise.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has a report been received from management forming a view on going concern?	The Director of Resources, as s151 Officer, is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the annual Budget report to Cabinet and Council in February.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Medium Term Financial Strategy underpins the strategic, transformational and operational intentions for Worcestershire County Council and forms part of the corporate strategic planning process. The financial assumptions are therefore consistent with the Corporate Plan. Reports in year are consistent with the budget set.
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The financial plan considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations (continued)

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes</p>
<p>7. Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</p>	<p>Yes. The Council has a robust corporate planning process, including an annual corporate strategic planning event in September and a change management process involving fortnightly Future Fit Steering Group meetings, a monthly Future Fit Programme Board and weekly Star Chamber call ins to track particular successes or progress against the more difficult milestones. Directors and Cabinet Members included in this process.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>Yes management is aware of this, however there are no events or conditions that cast doubt on going concern.</p>
<p>9. Are arrangements in place to report the going concern assessment to the Audit and Governance Committee? How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Council is an organisation which has many statutory responsibilities and functions and as such the financial statements are prepared on a going concern basis. Where any of the Council's functions are changing, these decisions are taken by Cabinet and where appropriate Full Council, matters of which are routinely considered by Audit and Governance Committee members.</p>

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Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Page 68 disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Question

What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?

Management response

Throughout each year, finance and legal services staff are involved in supporting any detailed partnerships or similar arrangements with other bodies. During the final accounts process, a particular challenge exercise to identify any and all matters in relation to related parties is undertaken. The results of this exercise is included in the financial statements.

Accounting estimates

Issue	
<p>Matters in relation to accounting estimates</p> <p>Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.</p> <p>Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.</p> <p>Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:</p> <ul style="list-style-type: none"> • the estimate is reasonable; and • estimates have been calculated consistently with other accounting estimates within the financial statements. <p>We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.</p>	
Question	Management response
<p>Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>No changes have arisen that could cause a change in significant accounting estimates. Management would be aware of any such circumstances through normal monthly Directorate Management Team finance reports</p>
<p>Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes</p>
<p>How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Assumption methodologies are reviewed before the financial statements are prepared, and are detailed for transparency in the accounts publications.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by a qualified valuer (RICS/CIB Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews.	There is a rolling program of valuations and the finance team issues a terms of engagement covering specific issues for the year	Yes, the valuer is a member of RICS	Valuations are made in-line with RICS guidance - reliance on expert	No
Estimated remaining useful lives of PPE	The following assets categories have general asset lives: <ul style="list-style-type: none"> • Buildings 10-99 years • Vehicles, Plant and machinery 3-10 years • Infrastructure 20 years 	Consistent asset lives applied to each asset category	Use a local RICS member for valuations	The method makes some generalisations. For example, buildings tend to have a useful life of up to 65 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> • assets which are bought from a third party are depreciated for a full year in the year of purchase. All other assets created as a result of capital expenditure during the year are depreciated for a full year where appropriate. • Assets under construction, being capital works in progress where the uncompleted asset does not have a material benefit to the County Council, are not depreciated. 	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is an indication that an asset may be impaired Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and , here this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired	Use the internal local RICS member for valuations.	Valuations are made inline with RICS guidance – reliance on expert	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants	Take advice from professionals	Yes	Take advice from treasury management professionals	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead Allocation	The finance team apportion central support costs to services based on fixed bases.	All support service cost centres are allocated according to the allocation basis.	No	Apportionment bases are reviewed each year to ensure they are equitable.	No.
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation	No	Estimated settlements are reviewed at the end of each financial year. The insurance provision is periodically reviewed by the council's insurance broker	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Procedures for identifying accruals are included in the closedown instructions	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI schemes and similar contracts Page 68	PFI and similar contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.	The models for the PFI contracts are used to produce the accounts. The internal valuer is used for valuations	Use of model for calculating PFI payment elements Use a RICS Member for valuations	Valuations are made in-line with RICS guidance - reliance on expert.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	<p>S151 officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event.</p> <p>For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.</p>	Heads of Services notify the S151 Officer	This would be considered on individual circumstances	This would be considered on individual circumstances	N/A
Defined benefit pension amounts and disclosures	Non-teaching staff are members of the Local Government Pensions Scheme, administered by Worcestershire County Council.	Rely on the calculations made by the actuary	The actuary of the pensions scheme	Reliance on the expertise of the actuaries of the pension scheme	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Actuarial Gains/Losses Page 70	The actuarial gains and losses figures are calculated by the actuarial experts. These figures are based on making % adjustments to the closing values of assets/liabilities	For the LGPS the Authority responds to queries raised admitted bodies of the pension fund.	The Authority are provided with an actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No

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**AUDIT AND GOVERNANCE COMMITTEE
24 MARCH 2017****INTERNAL AUDIT PROGRESS REPORT 31 OCTOBER 2016
TO 28 FEBRUARY 2017**

Recommendations

1. The Chief Financial Officer recommends that the Internal Audit Progress Report attached as at Appendices 1 and 2 is noted.

Background

2. The attached progress report summarises Internal Audit work undertaken from 31 October 2016 to 28 February 2017 for consideration by the Committee.

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Specific Contact Points for this report

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Supporting Information

- Appendix 1 - Internal Audit Progress Report
- Appendix 2 – Exempt Supporting Information for Committee Members only. (This Appendix is NOT FOR PUBLICATION as supporting information as it discloses information in relation to the financial or business affairs of any particular person (including the local authority holding that information) and the public interest is better met by its non-disclosure as it contains commercially confidential information relating to the financial aspect of this proposal).

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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Internal Audit Progress Report

“Providing assurance on the management of risks”

Internal Audit Progress Report

“Providing assurance on the management of risks”

This report summarises the results of all audit work since the previous report to the Committee in December 2016.

Summary of completed assurance work

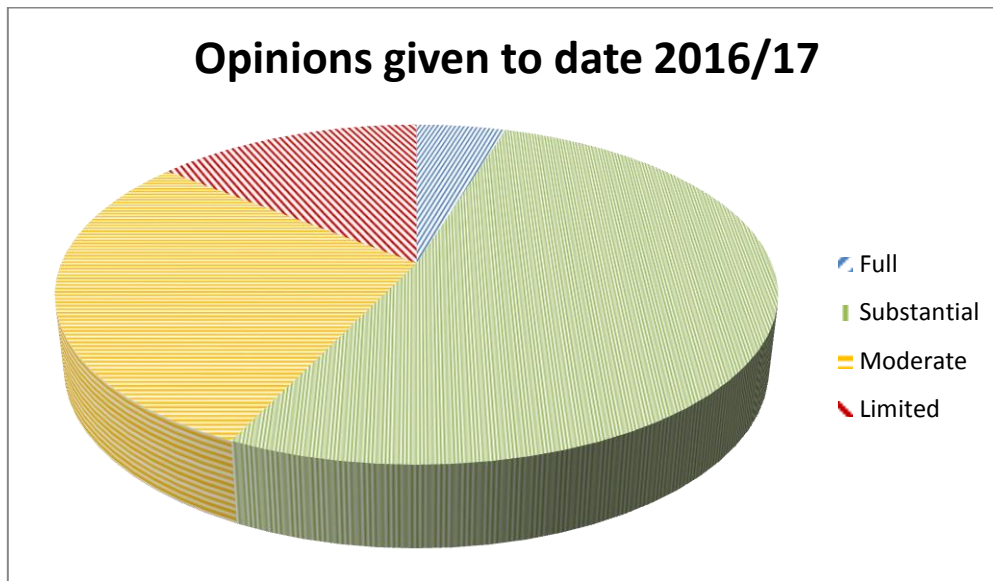
The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.

Table 1 summarises the results of the assurance work completed during the period since the December report to Committee showing the opinion given.

Table 1: Summary of completed audits.

Audit		Level of Assurance
1	Adults - Care plan reviewing process	Substantial
2	Adults Commissioning and placement process	Substantial
3	Treasury Management	Substantial
4	Section 106 Agreements	Moderate
5	Transport Infrastructure Funding	Moderate
6	School Visits - St James	Moderate
7	Schools Themed Audits	Substantial
8	School Visits - Fort Royal	Limited
9	School Visits - Belbroughton	Substantial
10	School Visits – The Forge PRU	Moderate
11	IT - Infrastructure	Limited
12	IT – Access Controls	Limited
13	Pension Investment Management	Substantial
14	Financial & Commercial Management Skills	Substantial
15	Improvement & Efficiency West Midlands (IEWM)	Substantial
16	Connecting Families	Moderate

The proportion of audits completed to date in 2016/17 given each level of opinion is illustrated in the following chart:



The following audits are nearing completion with draft reports issued and management comments awaited:

- Adults Case File Recording
- Economic Development
- Malvern Link & Foregate Street Station contract
- Bromsgrove Rail
- IT Commissioning
- Compliance with Care Quality Commission Home Closure Guidance
- Edge of Care
- Permits/Access to Highway

The follow up audit of Use of Consultants is approaching completion and at this stage it is anticipated that the opinion will not be limited.

There are three limited opinion audits which have been considered by Senior Leadership Team and a summary of these is included at the exempt Appendix 2.

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance, are: Merits Attention, Significant and Fundamental. Each audit report includes an action plan which includes target dates for implementing the agreed recommendations. Managers are accountable for implementing these action plans.

Summary of changes to 2016/17 plan

The following audits have been agreed with the Chief Financial Officer for deletion or deferral from the 2016/17 plan.

- Deprivation of Liberty Standards
- Evesham Abbey Bridge
- Liberata Contract Management
- Performance Management
- Pinch point funding (Grant certification not required)

Summary of non-assurance work

Counter Fraud

There have been no new investigations arising since the last report to Committee. The Council referred an allegation of a Company fraudulently claiming grant funding from the Council to the Police earlier in the year. This case has been deemed by the Crown Prosecution Service as having insufficient evidence to prosecute and this decision is currently being appealed.

Internal Audit continues to act as the lead co-coordinator for the National Fraud Initiative (NFI), all data was successfully uploaded by the required deadline. The data matching results have been received and allocated to individual officers for investigation.

Certification

The period saw one grant claim in respect of Stronger Families requiring review prior to certification; this was satisfactorily audited by the required deadline.

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the period the service has provided an input to various corporate projects and this work is consistently welcomed by managers.

Internal Audit has continued to provide a range of advice since the last report to the committee including:

- Liberata – advice regarding transactional HR/ Finance transformation.
- E-Market Place (Your Life Your Choice) - advice has been focused around the development of the system to include Children's Services including attendance at Board meetings.
- Economy and Infrastructure – advisory input into development of project operating model.
- Attendance at the Corporate Information Governance Group and the Corporate Risk Management Group.

- Transport contracts – advice regarding the changes to procurement process.
- Pre-paid cards – Advice regarding extending the use of pre – paid cards.
- Hive Imprest account.
- Councillors' Divisional Fund advice regarding accounting arrangements.
- Libraries – advice regarding production and implementation of cash handling procedures.

Reports for Publication

The following final reports will be published following consideration by the Chief Financial Officer of whether they would require redaction prior to publishing. It should be noted that to date only Internal Audit reports where an opinion has been given have been published.

- Adults - Care Plan Review
- Adults Commissioning and placement process
- Treasury Management
- Section 106 Agreements
- Transport Infrastructure Funding
- School Visits - St James
- Schools Themed Audits
- School Visits - Fort Royal
- School Visits - Belbroughton
- School Visits – The Forge PRU
- IT - Infrastructure
- IT – Access Controls
- Pension Investment Management
- Financial & Commercial Management Skills
- Improvement & Efficiency West Midlands (IEWM)
- Connecting Families

Published reports can be accessed by the following link:

http://www.worcestershire.gov.uk/info/20003/council_democracy_and_councillor_information/1076/internal_audit

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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AUDIT AND GOVERNANCE COMMITTEE
24 MARCH 2017**WORK PROGRAMME**

Recommendation

- 1. The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

Work Programme**21 July 2017**

Annual Statutory Financial Statements for the year ending 31 March 2017
Annual Governance Statement
Internal Audit and Delegated Service Annual Report 2016/17
Internal Audit Risk Assessment and Plan 2017/18
Corporate Risk Report

12 October 2017

Internal Audit Progress Report 2017/18
Counter Fraud Report

8 December 2017

Internal Audit Progress Report 2017/18
External Audit Letter 2016/17
Corporate Risk Report

March 2018

Internal Audit Progress Report 2017/18
External Audit Plan 2017/18
External Auditor's Report

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Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) the following are the background papers relating to the subject matter of this report:

Agenda and Minutes of this Committee from December 2005 onwards