Appendix 1

Our Ref JG/HL

Members of the Audit and Governance Committee
Worcestershire County Council
County Hall
Spetchley
Worcester
WR5 2NP

11 October 2017

Dear Councillors

Audit findings for the year ended 31 March 2017

As you are aware, when we attended the meeting of the Committee on 26 September to present our Audit Findings Report, we highlighted that there were still a small number of significant issues outstanding where we were awaiting evidence and explanations from officers, and that we had further work to complete on our files before we would be able to give an audit opinion. The Committee also noted that a small number of further changes were required to the set of financial statements provided with the committee papers, and that these would need to be formally agreed through the Chair and Vice-Chair. We alerted the Committee to the fact that, while we were still aiming to give our opinion so that the Council could meet the statutory deadline of 30 September for the publication of the audited Statement of Accounts, this was by no means guaranteed.

In the event, it was not possible for us to give our opinion in time for the Council to meet the deadline. There were some further issues with the quality of some, but not all, of the information and evidence being provided to us, and we had concerns about the clarity of the evidence trail supporting amendments to the accounts. The information provided to us in relation to the waste PFI and the values of property, plant and equipment was appropriate, but we needed the Council to undertake further work in relation to exit packages and to improve the evidence in relation to some aspects of the 'telling to story' changes.

We liaised with the Chief Financial Officer throughout and kept the Chair and Vice-Chair updated.

You will be aware that one of the requirements placed on us under auditing standards is that we inform you as 'those charged with governance' of any non-trivial amendments or disclosure changes which have been made to the accounts, and also discuss with you any non-trivial errors or disclosure issues which we have identified but which officers have declined to amend. The Audit Findings Report which we issued for the meeting on 26 September set these out, as they stood at the time of drafting, on pages 24-30 (176 to 182 of the committee papers pack). In order to conclude our work, we now need to inform members of subsequent changes.

Amendments to the accounts

The following additional non-trivial amendments have been made to the accounts since we drafted our report for the 26 September meeting. Note that the first of these had already been

made in the accounts provided to members for the 26 September meeting and was discussed at that meeting, but was not referred to in our report as the change had been made subsequent to the drafting of our report.

	Area of accounts	Detail
1	2016/17 Income on the face of the CIES	An error was identified with how recharges had been excluded from the overall income as presented on the face of the CIES. The total value of the error was £15.384m. However, as discussed with the Committee on 26 September, this had a nil impact on the net cost of services income line, as the amount was a reclassification between the directorates as analysed on the face of the CIES.
2	Prior Period adjustment (Note 1.01)	The Prior Period adjustment note has been amended by £8.9m to ensure consistent treatment of income between Adults and Public Health. The revised note also includes a greater level of narrative explanation to explain the nature of the restatement. We have worked closely with officers to ensure we have gained sufficient evidence that the note is not materially misstated, however note that the working papers contain a number of non-material differences.
3	Expenditure and Funding Analysis (Notes 1.01a and 1.01b)	The notes for 2015/16 and 2016/17 have both been restated. A number of these changes had already been reflected in the accounts considered by the Committee on 26 September, but further changes have since been made. There are numerous amendments and therefore these have not been listed individually. However a number of these disclosures have been amended by material amounts (comparing the final set of accounts with those originally used for the audit). For example, the net expenditure chargeable to general fund balances at the net cost of services line for 2015/16 has been amended from £334.8m to £317.4m. A similar amendment has been made to that line for the 2016/17 note. In addition it was identified for 2016/17 that the pension adjustment of £10.9m had not been apportioned across the directorates as it had been in prior years; this has also been amended for to ensure consistency and compliance with the Code. As with the PPA note, the EFA also includes a greater level of narrative to explain the disclosures.
4	Expenditure and Income Analysed by Nature (Note 1.03.2)	The note has been restated for both expenditure and income. In both cases the classification has changed by non-material amounts. An example of one of the changes made is that the note incorrectly referenced a figure of £1.5m in 2015/6 as 'profits on disposal of assets' when it should have read 'other'.

5	Termination benefits and exit packages (Note 1.08)	Various changes leading to overall increase in value of the packages disclosed of £0.7m between the original accounts and the final version. This arose primarily because the costs of the strain on the pension fund were incorrectly omitted from 14 packages. The number of packages also rose from 111 in the original note to 113 in the final note, as one accrual included a number of officers that needed to be split across the banding.
6	Grant and Contribution Income (Note 1.09)	As previously reported we have experienced difficulties in gaining sufficient assurance in relation to Grant and Contribution income. The work has now concluded, with a number of changes to the classification of the grants, and the total credited to services. The amount credited to services decreased by £6.5m, from £320.7m to £314.2m. In addition the amount reported for 'revenue funded from capital under statute' (REFCUS) has decreased from £10.7m to £9.4m.
7	Defined Benefit Pension Schemes (Note 2.12)	The Council had included the cash flow figure as £18.3m in note 2.12.7. This should be reported as £24.8m in line with the report provided by Mercer as the actuary.
8	Private Finance Initiative (Note 2.04)	The note in the draft accounts provided limited detail on the changes that have occurred to the Waste PFI in year. We have asked officers to include additional narrative in relation to the operational nature of the arrangement in year, and the estimates and judgements that have been made in terms of the valuation of the asset. In addition note 2.04.5 schedules the payments due to be made under PFI contracts - we have identified some non-trivial amendments to this schedule, however none are material. Officers have agreed to amend the schedule for the errors identified.

Unadjusted misstatements

Members will recall that our report highlighted three adjustments which officers had declined to make. Since that time, officers have come to an understanding of how one of these issues arose and have now decided to amend it. Another, which was shown as an unexplained difference, has also now been resolved as a result of the restatement of note 1.09 (grants and contributions).

For the avoidance of doubt, unadjusted misstatements now comprise:

Misstatement	Reason for not adjusting
Creditors – the short-term creditors balance in the draft accounts includes £15.4m in respect of	Officers have accounted for these balances in accordance with advice

s106 and s278 contributions, which should be recorded as capital grants and contributions received in advance, within the long-term liabilities section of the balance sheet. This is the treatment adopted by the majority of councils, although we acknowledge that there is some inconsistency on this arising from confusion at the time the current accounting arrangements were implemented.	from previous auditors but are happy to change the treatment and will do so in the 2017/18 accounts.
PPE valuations – as a result of the additional work undertaken on assets not formally revalued in the year, officers identified errors in the valuation of three assets, meaning that the PPE value in the balance sheet is overstated by £3.1m.	Officers do not consider the misclassification to be material and propose making the change within the 2017/18 accounts.

The above schedule of unadjusted misstatements needs to be appended to the Letter of Representation, thus indicating that members are content with officers' views that these changes do not need to be made to the Statement of Accounts. We understand that this Letter, with the appropriate appendix, will be included in the papers for the Audit Committee meeting.

Other issues – property, plant and equipment

A key area of outstanding work that was discussed as part of our reported dated 26 September related to Property, Plant and Equipment valuations, where officers had undertaken work to demonstrate that the value of assets not formally valued in year was not materially misstated. A number of issues arose from this work and our review of it:

- As noted above, officers challenged the basis of the valuations made by PPL in respect of both primary and secondary schools. This identified that there were three assets where PPL had made an error in the base value for the replacement cost valuations. PPL have revised their valuation of these assets and issued a new valuation certificate. The impact of the revised valuation is that assets in the balance sheet are overstated by £3.1m
- Officers' reconciliation of the valuation spreadsheet to the valuation report has identified a number of issues which are individually trivial, particularly in the context of the whole value of property plant and equipment. For example, the reconciliation between the spreadsheet of revalued assets and the valuation report for operational land and buildings differs by £74k. In addition the properties listed in the Assets Held for Sale on the smallholdings total £300k more than the figure that PPL have advised in their signed report, and Evesham Vale Lodge Children's Home has been revalued in year and included on the asset register, however this is not included in the signed valuation report.
- In critically reviewing the changes in the value of assets, officers identified a number of assets which had been incorrectly reported in previous periods. Some of these assets were revalued in 16/17 and there is no material impact on the current year values reported in the balance sheet. Officers will need to review these assets in future years to make sure they are appropriately included in the valuation programme.

- The Council use PPL as an expert to value its assets. Part of this process involves a detailed specification of the services that are required and the assets that are needed to be revalued. A review of the instructions to the valuer has identified that the written instructions are not a reflection of the process that is actually in place. In future years officers should ensure that the instructions provided to the valuer are sufficiently detailed to ensure that the work undertaken is appropriate and accurate.

We have noted in previous years' audits that the Council needed to improve its arrangements for accounting for property, plant and equipment. While the above points do not have a material impact, they confirm that further action is needed to ensure that information on assets is reliable and consistent.

Closing comment

We are continuing to liaise with the CFO and his team to ensure that the audit can be concluded as soon as possible and we still anticipate providing an unqualified audit opinion. We have noted members' intention to ensure that lessons are learned from this year's accounts closure process, and we are happy to feed our views into this learning.

Yours sincerely

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