

The Audit Findings for Worcestershire County Council

Year ended 31 March 2019

24 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We commenced our post-statements onsite visit in late May and as at 24 July 2019 our audit is substantially complete. Our findings are summarised on pages 5 to 13.

We have identified no material errors or adjustments to the financial statements.

Following the receipt of the draft accounts the Council sought from its actuary an assessment of the impact of the McCloud legal ruling. This identified a £6.5 million increase in the actuarial present value of promised retirement benefits that has been adjusted for in the Council's Comprehensive Income and Expenditure Statement and Balance Sheet.

We identified two further errors to the financial statements that are considered significant.

The first is a £12.4 million classification difference on the face of the Comprehensive Income and Expenditure statement, where £12.4 million has been removed from the net cost of services line, and reclassified to the taxation and non-specific grant income and expenditure line. An associated prior period adjustment has been made in respect of this as last year's balance of £17.1 million as this is material to the financial statements.

The second, a technical accounting adjustment, relates to £6.1 million of capital grants that had been incorrectly accounted for. Officers do not consider this to be material to the financial statements and we concur with this judgement and as a result this has not been adjusted for in this year's statement of accounts.

We have also recommended a number of other adjustments to improve the presentation of the financial statements.

Further details in relation to these adjustments are included in Appendix C. It should be noted that none of the adjustments impact on the year end outturn reporting position.

The draft financial statements were presented for audit in accordance with the agreed timetable of the end of May 2019. There is a clear trajectory of improvement with the working papers from the prior year, however there remain some areas where the clarity of working papers could be improved.

We have raised recommendations for management as a result of our audit work in Appendix A. The position against our prior year recommendation to management is detailed in Appendix B.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to a number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019.

Appendix A details our audit fees for the year. We have discussed with officers a proposed additional fee of £13,450 to take account of the work needed to address the risks that have arisen during the audit. Of the £13,450, £9,000 relates to issues that affect all councils and therefore are being applied at a national level. The remaining additional fee of £4,450 relates to the additional work needed on sample testing due to the financial reporting from E5. This has previously been raised with the Audit and Governance Committee.

Headlines

Value for Money arrangements

<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have substantially completed our risk based review of the Council's value for money arrangements. We have concluded that in respect of our identified risks of Commissioning and Financial Sustainability Worcestershire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>At the time of writing the audit findings report we understand that the Council is awaiting the judgement from Ofsted in respect of their recent re-inspection of Children's services. We understand that the report is due to be published before the end of July and therefore we will conclude our work in this area once the new rating is known.</p> <p>Our findings are summarised on pages 14 to 20.</p>
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Statutory duties

<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We are unable to certify the closure of the 2018/19 audit of Worcestershire County Council (Appendix E) due to the following;</p> <ul style="list-style-type: none">• Whole of Government Accounts statement (deadline 13 September 2019)• Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report
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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT system, and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 14 December 2018.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix E. These outstanding items include:

- Review of the updated actuary report for the McCloud ruling regarding age discrimination including reviewing the adjustments to pension figures within the accounts;
- Completion of final considerations of PPE valuations;
- Completion of work on financial instruments, particularly in relation to classification of disclosure of the loan in relation to PFI;
- Receipt of management representation letter;
- Completion of a number of outstanding queries; and
- Review of the final set of financial statements, including review of adjustments made to the draft financial statements.

Our approach to materiality

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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Worcestershire County Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	14.533 million	• Materiality has been based on 1.9% of the Authority's gross expenditure
Performance materiality	9.446 million	• Our performance materiality has been set at 65% of our overall materiality
Trivial matters	726k	• This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration	100k	• The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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>Auditor commentary</p> <p>As per the audit plan this risk has been rebutted. 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, in summary 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 Government authorities, including Worcestershire County Council means that all forms of fraud are difficult to rationalise i.e. the culture and ethics mitigate against fraud being seen as acceptable. <p>Findings</p> <p>Our work has not identified any issues in respect of the recognition of revenue.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Findings</p> <p>Our work to date has not identified any issues in respect of the management override of controls.</p>

Significant findings – audit risks continued

Risks identified in our Audit Plan

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Commentary

Auditor commentary

We have:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Considered the competence, expertise and objectivity of any management experts used;
- Reviewed the basis on which the valuation is carried out and challenged the key assumptions;
- Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and
- Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Findings

Members will recall that this was a particular area of difficulty during the audit last year, and as a result there have been communications between the audit team and finance officers throughout the year. Working papers demonstrating officers' assessment in relation to the assets not revalued in year were not available at the start of the audit, the final version of the working papers were provided to the audit team on the 10th July. As a result, work is ongoing in this area at the date of writing the AFR.

We will provide an update on this to Audit and Governance Committee members at the meeting on 29 July 2019.

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out;
- Undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.


Findings

Our audit work has not identified any issues in respect of the Pension Fund net liability. We have worked with officers of the Council to ensure an appropriate resolution is reached in relation to the McCloud ruling. The Council have obtained a revised actuarial report and made the amendments to the draft financial statements.

We are currently working through this adjustment to gain assurance that the basis is reasonable.

We will provide an update on this to Audit and Governance Committee members at the meeting on 29 July 2019.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £536m	<p>Other land and buildings comprises £536 million of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The Council has engaged Place Property Partnership to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 7% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £7.8 million.</p> <p>Management has considered the potential valuation change for those assets revalued in prior years, to determine whether there has been a change in the total value of these properties at 31 March 2019. Management's assessment of asset valuation over this period has identified no material change to the value of these assets.</p>	<ul style="list-style-type: none"> • We have assessed Place Partnership to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report • We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management in determining the movement of assets that have not been revalued in the current year. • We have reviewed the disclosures in relation to PPE and made a number of amendments for improvement. The accounting policies in relation to how assets are revalued and reviewed for material movements could be enhanced to explain the process followed. • Key working papers in relation to this area were not available at the start of the audit, with final working papers presented to the audit team on the 10 July, as a result work in assessing the reasonableness of the approach taken remains ongoing at the time of writing this audit findings report. 	 Yellow

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																																
Net pension liability – £457m	<p>The Council's net pension liability at 31 March 2019 is £457 million (PY £360 million) comprising the Worcestershire Pension Fund Local Government defined benefit pension scheme obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £68 million actuarial loss during 2018/19.</p>	<ul style="list-style-type: none">We have assessed the Council's actuary, Mercer, to be competent, capable and objectiveWe have performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary and have no issues to note.	<div><div></div><div>Green</div></div>																																
		<table><tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.4%</td><td>2.4%-2.5%</td><td><div><div></div></div></td></tr><tr><td>Pension increase rate</td><td>2.3%</td><td>2.3%-2.2%</td><td><div><div></div></div></td></tr><tr><td>Salary growth</td><td>3.7%</td><td>3.10%-4.35%</td><td><div><div></div></div></td></tr><tr><td>Life expectancy – Males at 65 (Current pensioners)</td><td>22.8</td><td>22.2 to 23.7</td><td><div><div></div></div></td></tr><tr><td>Life expectancy – Males at 65 (Future pensioners)</td><td>25.1</td><td>24.8 to 26.3</td><td><div><div></div></div></td></tr><tr><td>Life expectancy – Females at 65 (Current pensioners)</td><td>25.8</td><td>25.0 to 26.4</td><td><div><div></div></div></td></tr><tr><td>Life expectancy – Females at 65 (Future pensioners)</td><td>28.2</td><td>27.9 to 29.0</td><td><div><div></div></div></td></tr></table>		Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4%-2.5%	<div><div></div></div>	Pension increase rate	2.3%	2.3%-2.2%	<div><div></div></div>	Salary growth	3.7%	3.10%-4.35%	<div><div></div></div>	Life expectancy – Males at 65 (Current pensioners)	22.8	22.2 to 23.7	<div><div></div></div>	Life expectancy – Males at 65 (Future pensioners)	25.1	24.8 to 26.3	<div><div></div></div>	Life expectancy – Females at 65 (Current pensioners)	25.8	25.0 to 26.4	<div><div></div></div>	Life expectancy – Females at 65 (Future pensioners)	28.2	27.9 to 29.0	<div><div></div></div>
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<ul style="list-style-type: none">The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.We are currently working through the McCloud adjustment to gain assurance that the basis is reasonable.																																			

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	Auditor View
1	<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal but this has now been denied by the High Court.</p> <p>The decision as to the appropriate accounting treatment is one for the Council, but our national technical advice is that we are expecting this adjustment to be made to the accounts if the estimated increase in liabilities is material.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>This issue has been an emerging issue following receipt of the draft financial statements and it is one that by its nature is sector wide. We have been working with management to determine the most effective way to deal with this issue, recognising that pension estimates are high value, complex and important figures within the financial statements. As a result they require an appropriate degree of focus and challenge from both management and auditors alike.</p> <p>We have asked management to work with their actuary to gain the necessary information to determine whether the potential impact of this judgement would have a material impact to the financial statements.</p> <p>Management have commissioned an updated valuation from the actuary, to take account of the impact of McCloud and also to update the report to take account of the actual rate of return on assets, rather than an estimated position which was used in the original report used for the draft financial statements.</p> <p>Officers have demonstrated that the impact of the revised actuary report is to increase past service liabilities by £6.5 million and increase projected service cost by £1.3 million, a total impact of £7.8 million. While not material, given the magnitude of these amendments the Council have amended the draft financial statements for these movements.</p>	<p>We received the revised IAS 19 calculation from the Council on 18 July and are currently working through this to gain assurance that the basis of the adjustment is reasonable.</p> <p>We will provide an update on this to Audit and Governance Committee members at the meeting on 29 July 2019.</p>

Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process

The Chief Financial Officer as s151 officer has a reasonable expectation that the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- no material uncertainties related to events or conditions that cast significant doubt upon the Council's ability to continue as a going concern exist that require disclosure

Auditor commentary

Chapter 6 Section 3.4 of the CIPFA Code on the “*Presentation of Financial Statements for Pension Funds*” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2017/18 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".

Management have carried out a formal written assessment in respect of the going concern of the Council and have identified:

- The Council produce financial plans and budgets for members to approve, which continue into the medium term,
- The plans include an assessment of the level of balances and reserves held by the Council, with the Chief Financial Officer considers to be sufficient,
- The Council do monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval to the financial statements. This shows the Council have appropriate cash balances.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

We have reviewed the:

- Written assessment provided by management, including the supporting documentation provided, and
- The cash flow forecast which covers 12 months from the date of approval of the financial statements.

Auditor commentary

Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.

Concluding comments

Auditor commentary

We propose to issue an unmodified opinion for 2018/19

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, which is appended.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the necessary information from the pension fund auditor.
6	Disclosures	<ul style="list-style-type: none"> Our initial review of the draft financial statements identified a number of omissions in the financial statements, however we have made recommendations to assist the Council in achieving greater compliance with the Code. Where disclosure amendments have been made to the statement of accounts, these are set out in Appendix C.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided. There were significant improvements made in the timeliness of responses and quality of information provided in relation to individual sample items that were selected for testing. There remain areas that could be improved, however both officers and the audit team recognise that this is an improvement journey and that there is a positive trajectory. While the audit trail from the financial system to the statement of accounts has been improved, the reporting from the finance system still includes large balances of debit and credit items that cannot be stripped from the population for testing. This continues to produce larger sample sizes for testing than we would expect for a Council of this type. This has been raised previously with both officers and members, particularly in light of the impact that this has on the audit fee (see page 27).

Other responsibilities under the Code

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E</p> <p>In addition, we noted that the Council had failed to trigger the correct dates for public inspection as the AGS had not been published alongside the draft financial statements. Following discussion with officers amendments were made to the public notice and a revised inspection period was published that complied with the regulations.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that work is not yet completed and the planned timescale for the work has been agreed with the Council, to ensure that work will be completed by the statutory deadline.
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2018/19 audit of Worcestershire County Council in our auditor's report, as detailed in Appendix E due to the following;</p> <ul style="list-style-type: none"> Whole of Government Accounts statement (deadline 13 September 2019) Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report

Value for Money

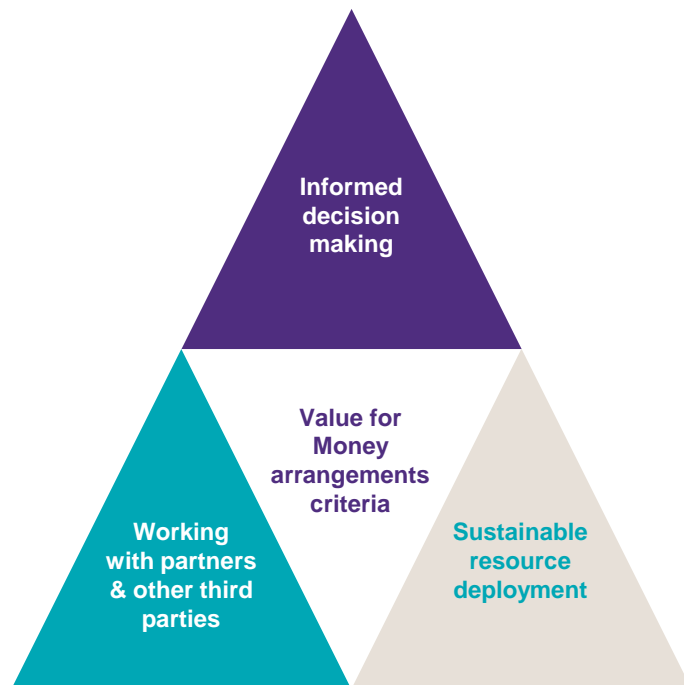
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in December 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 14 December 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The continuing arrangement that the Council has put in place to respond to Ofsted and implement the service improvement plan,
- The final outturn position for 2018/19 and progress made towards closing the gap in future years,
- The current financial savings plans of the Council, and the delivery of those savings; and
- The mechanisms that officers have put in place to strengthen the arrangements around procuring major contracts.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources, with the exception of Children's Services where we are unable to conclude at the time of writing this report.

Members will be aware that the Council is awaiting the judgement from Ofsted in respect of their recent re-inspection of Children's services. We understand that the report is due to be published before the end of July and therefore we will conclude our work in this area once the new rating is known. We will provide members with a verbal update during the audit committee.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Difficulties in undertaking our work

Work on the risk in relation to Commissioning commenced during February 2019, however obtaining the necessary supporting evidence to demonstrate how arrangements have been strengthened during the year have been difficult for the audit team to obtain. We received final working papers from officers to support this work in mid July, following the intervention of the finance team to gather the supporting evidence required.

We have included a recommendation in the action plan for working papers in relation to the VFM conclusion to be strengthened and coordinated in a similar way as to those as for the financial statements.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	Children's Services Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017. In addition the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities. The outcome of the inspection was to require a written statement of action because of significant weakness in the local area's practice. We will review the progress the Council is making against the recommendations arising from the Ofsted review. This includes the steps that are being taken to establish a wholly owned subsidiary company to deliver children's services.	<ul style="list-style-type: none"> Since the original 'inadequate' Children's Service inspection in January 2017 the Council have received 7 monitoring visits from Ofsted. This final monitoring visit took place on the 8 and 9 January 2019. Feedback from Ofsted from this visit continued to highlight good progress, with no areas of significant harm identified that had not been responded to by the local authority. There still remained areas for improvement, however, these were largely where processes needed to embed, or where Ofsted had reviewed case files relating to old cases where the recent improvements are not been able to be demonstrated. On the 10 June we were informed by the NAO that the Council were due to have a full re-inspection of Children's Services in late June 2019, with a planned publication date of the 29th July 2019. Last year we issued an 'except for' VFM conclusion in respect of Children's Services. An improvement in your rating following this visit would enable us to issue a clear VFM conclusion in this area for 2018/19. We are working with officers to ensure that we are able to use any updated rating to inform our conclusion recognising our target is to issue our opinion and VFM conclusion by the 31 July 2019. Ofsted also conducted a joint inspection of provision for children and young people with special educational needs and disabilities in March 2018 to judge the effectiveness of the area in implementing SEND reforms in Worcestershire. As a result of the inspection it was determined that a Written Statement of Action was required because of the significant weakness in the local area's practice. The action plan prepared jointly by the County Council and the CCG was submitted in August 2018. Monitoring has taken place against this action plan and there is evidence of improvements, with the development of a new local offer website where parents, carers and providers can find information about SEND provision and services. There is evidence that this is proving successful with over 500 returning visitors to the webpage. The % of looked after children with up to date health assessments continues to improve and has increased from 59% in May 2018 to 80% in January 2019. The department of education and NHS England advisors hold quarterly joint monitoring visits to discuss progress on delivering the SEND action plan. There have been 3 monitoring visits to date, (June 2018, September 2018 and December 2018). They have reported that key pieces of work have begun which should impact positively on outcomes for children and young people. Worcestershire Children First is the new company that will be responsible for delivering services to children and young people across Worcestershire. Services will transfer from the Council to the wholly owned not for profit company on the 1st October 2019. The initial scope of the company has been widened to include education services, SEND and early help, which will enable a sharp focus on the needs of young people. The Company has appointed its Chief Executive and Chairman of the Board in advance of the go live date. Work is ongoing to develop a business plan for the company, as well as developing arrangements for monitoring service delivery 	Auditor view <ul style="list-style-type: none"> We await the formal view from the Ofsted re-inspection to be able to conclude our work in this area.

	Significant risk	Findings	Conclusion
2	Financial Sustainability of the Council	<ul style="list-style-type: none"> Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council have delivered a small deficit of £2m compared to a net budget requirement of £324m. This year end position was only achieved via some swift and decisive management action at period 4, which has enabled an initial predicted overspend of £12m to be managed down to £2m. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. Whilst the final overall outturn was £2m, there were areas of significant overspending in adult services of £12.4m and to a lesser extent children's services of £1m. These overspends have been mitigated by savings in other areas, such as a £4.7m underspend in Economy and Infrastructure and £6.4m in Finance, the latter as a result of reviewing financing transactions. Transformation projects are in place in both Adult and Children's services to mitigate these demand pressures and ensure that spending can be contained within budget in future years. Like many other local authorities, the funding for schools remains a significant challenge, with the DSG overspent by £7.7m in year. This comprises of a £9m overspend for High Needs Block and a £1.2m underspend on other DSG areas. Despite some additional funding and a depletion of prior year reserves the DSG has ended up in a deficit position of £0.6m. The Council recognises that this is not a sustainable position and is an area of concern which it continues to lobby central government about. It is likely that alternative funding in 2019/20 will need to be found to compensate for the magnitude of these overspends in the high needs block. The original savings target included in the 2018/19 budget was £37.4m. This consisted of £31.6m that was planned in 2018/19 and £5.8m of projects that were carried forward from previous years. As part of the review of the budget for the year, it was identified early on that the £5.8m carry over from prior years was unlikely to be achieved, and similarly the original target for 2018/19 was overly ambitious and that £2m would not be achieved. This gave a revised target for savings of £29.5m, of which £27.7m has been achieved. In addition to the original savings identified in the budget, significant management action was identified as part of the period 4 budget monitoring, which has led to further savings of £10.5m being achieved. The delivery of these savings has ensured that the outturn position has been for only a small deficit in year, which can be contained within the current level of reserves. The s151 officer has assessed the level of reserves as appropriate at the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £81.5m of earmarked reserves. Removing balances relating to schools of £5.6m and a further £11.8m where the reserves could be used to support spend, gives an earmarked position of £64.1m which could be used to support services if required. This equates to almost three times the level of savings needed in 2019/20 and 19.4% of the budget requirement. Comparing these reserve balances with other county councils draft financial statements, Worcestershire is towards the bottom end of the scale, with only five county councils having lower level of combined general fund and earmarked reserves (when excluding schools). This is demonstrated in the graph below. 	

Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.

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.

2

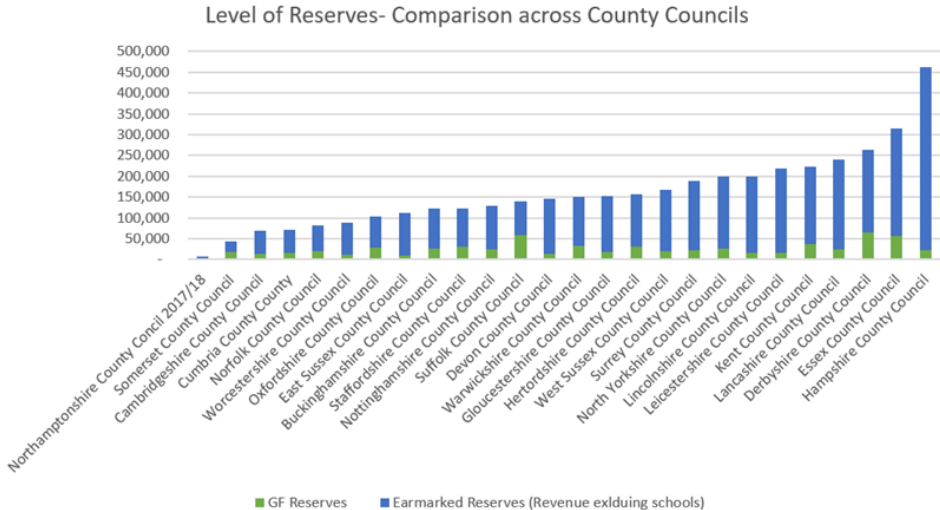
Significant risk Findings

Financial Sustainability of the Council

Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.

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.

- Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying savings, reforms and income generation of £61m needed between 2019-22. £23m of that would be needed in 2019/20.
- The budget for 2019/20 was set in February. The process considered the amount of income the Council was likely to receive, as well as considering the additional pressures on expenditure. The pressures of both pay and contract inflation were considered as well as the considerations for demand led growth, and growth for investment purposes. The budget approved significant additions to budgets in adult and children's services to address the levels of overspending that had previously been identified. This was in addition to approved transformation projects in these services aimed at helping to contain expenditure within budget in future years.
- Plans are in place to deliver the £23m of savings that will be needed for 2019/20, with projects, such as the Council redesign, and savings on procurement already well advanced. Other savings plans have been challenged as part of the budget process with key projects going through the star chamber process.
- The latest budget monitoring for 2019/20 is predicting a small net overspend, which is predominantly made up of demand pressures on adults and children's services. In addition, the DSG High Needs Block is forecasting to overspend by a similar amount to prior year. Work is ongoing in these areas to bring spending back in line, or to fund via alternative savings.



Conclusion

Auditor view

- While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.

Management response

- The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.

Key findings continued

	Significant risk	Findings	Conclusion
3	Commissioning arrangements <p>The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services.</p> <p>We will review the progress the Council has made in regard to the risk identified in the prior year.</p>	<ul style="list-style-type: none"> Following the qualified VFM conclusion and the new senior leadership team in place at the Council, there has been an obvious focus on the need to improve the procurement and commissioning arrangements in place at the Council. The Corporate and Communities Overview and Scrutiny Board have received various reports and updates on commissioning, with the Audit and Governance Committee, also regularly updated on progress. Improved governance is in place, with the following measures being put in place during the year; <ul style="list-style-type: none"> The introduction of a Commercial and Commissioning Board. The aim of which is to provide a strategic view of commissioning and commissioned services, The introduction of a category management team, whose purpose is to ensure commerciality is introduced and to identify opportunities for reducing spend, The introduction of a central buying team, and The introduction of a greater focus on commercial reporting. We have reviewed minutes of meetings from the board and noted the focus on managing the procurement process, and identifying key risks. A set of actions is produced following the end of each meeting, which are monitored to ensure that all risks are addressed and tasks managed. Where contracts are let, or where decisions have been taken to move services back in house, a lessons learned report has been produced. This is shared as appropriate, in many cases, through the well established star chamber process. This helps ensure that learning points are shared across departments. Commercial reporting is significantly improved, with a dashboard system in place that shows contracts in place, savings and an overall workplan. Officers and members are able to access this, which gives a clear overview of the work that is ongoing within commissioning and procurement. The skills and expertise of the central team have been strengthened during the year, with two qualified officers being appointed. Training is also underway with existing staff to ensure the Council has appropriately trained officers in this field. This will be reviewed based on the Council redesign, to ensure that this function is fit for purpose. The new team have already helped deliver savings that have contributed to the final outturn position for the Council in 2018/19. While it has not been possible to quantify the savings delivered, work on reducing the number of people who have purchasing cards, better management of PO numbers and a focus on essential spending has ensured that the predicted overspend has been managed down to a more acceptable level than initially predicted during the year. 	

Key findings continued

	Significant risk	Findings	Conclusion
3	Commissioning arrangements The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services. We will review the progress the Council has made in regard to the risk identified in the prior year.	<ul style="list-style-type: none">• The audit team have reviewed two key procurement activities that have taken place during 2018/19 to ascertain whether there is evidence of improved arrangements in place. These projects were the 0-19 Prevention and Early Intervention Service and the replacement of the case management system for Adult and Children's services called Liquid Logic.• In both cases, the reports that went to the corporate commissioning board demonstrated a clear understanding of the issues and risks associated with the procurement. Lessons learned around previous system procurement had been acted on, and where appropriate decisions were taken to delay implementation to ensure that the service was provided in a way that would be most appropriate for service users.	Auditor view <ul style="list-style-type: none">• Overall there is clear evidence that the Council has done a large amount of work in this area on the arrangements in place, and there is clear commitment from both senior officers and members to ensure that arrangements are robust and deliver the best value services for the residents of Worcestershire.• Given the nature of these projects and the long lead time, there is no evidence yet that the improved arrangements are delivering improved outcomes, however there is an expectation that the new arrangements would lead to better outcomes in the future.• The Council has appropriate arrangements in place. Management response <ul style="list-style-type: none">• The Council has continued to strengthen its arrangements around commissioning and this will remain a key business activity to ensure the appropriate resources are secured to undertake service provision.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services





For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers' Pension return	4,200	Self-Interest, self-review, management	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low.. Further, it is a fixed fee. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>Our work is undertaken after the audit is completed and there are no material judgements impacted by our work. The Council's officers are sufficiently informed to make decisions based on our work.</p>
Non-audit related			
CFO Insights subscription	12,500	Self-Interest	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.
Contract Assurance	38,750	Self – Interest, self-review, management	<p>This is not considered a significant threat as the fee for this work is not significant in comparison to the total Worcestershire audit fee income. The work to be undertaken is not a recurring fee and it is not contingent based. The output report is designed to capture factual events and is not judgemental. The work is being performed by a team totally separate to the engagement team. The total quantum of savings expected is well below materiality and the Council has informed management who can negotiate appropriately with contractors in respect of the contracts under review.</p> <p>These factors all mitigate the perceived self-interest threat to an acceptable level. This will be billed during the 2019/20 audit year, however included in this table for completeness.</p>




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	Financial statements – working papers. While working papers have improved there remain key areas that could be improved, particularly in respect of capital working papers, working papers to support key judgements and in cases where clearer narrative is needed to articulate the views of management.	<p>Officers should continue their focus on improving working papers. Working papers should be clear to understand and include all of the necessary information to enable another suitably qualified and experienced person to follow the trail. In a number of cases working papers would benefit from a clearer narrative.</p> <p>Management response</p> <p>We will continue to improve our working papers, in particular working on the narrative background to the numbers in the accounts.</p>
	Financial statements – disclosure checklist. The disclosure checklist is a key document for ensuring that the financial statements meet the reporting requirements as set out in the Code. While officers explained that they had used this document as part of the preparation of the draft financial statements, there was limited evidence of this provided to the audit team. Given the number of disclosure omissions identified by the audit team greater focus should be given to this document and its documentation when preparing the draft financial statements in future years.	<p>Officers should ensure that the disclosure checklist is appropriately documented when preparing the draft financial statements, with clear referencing and explanations detailing how management consider that the statements comply with the Code.</p> <p>Management response</p> <p>The disclosure checklist will continue to be used in preparing the accounts and we will ensure that it is appropriately reference and annotated.</p>
	VFM – Working papers. The working papers provided to support the improvements made to the commissioning arrangements lacked the appropriate level of detail. The final working papers were provided to the audit team in mid July, which placed significant pressure on the timeline to ensure completion by the statutory deadline.	<p>The same focus and attention should be given to the working papers to support the VFM conclusion as to those that support the financial statements.</p> <p>Management response</p> <p>Work on the VFM conclusion will be incorporated into the finance team and the work we do in preparing and evidencing the accounts.</p>
	VFM – Financial Sustainability	<p>Continue to review and closely monitor the delivery of the savings plans for 2019/20 and robustly challenge the deliverability of savings plans for future years.</p> <p>Management response</p> <p>These will continue to be monitored as part of our standard financial management process.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented the recommendations, however these areas are ones that will need continued focus in the current year, and this is reflected in the action plan.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a more timely and efficient manner.</p> <p>Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.</p>	<p>Working papers provided by officers of the finance team this year demonstrate a much greater understanding of the reporting output from the financial system. Populations that have been produced for year end have been clearly reconciled back to populations provided for the interim audit. With the working papers showing how these populations fit with the amounts presented in the draft financial statements.</p> <p>As highlighted earlier, the system currently operates in a way that produces a large number of debit and credit type balances for one line in the financial statements, which generates an increased amount of testing at year end when compared to other similar authorities.</p> <p>We understand that this is a function of the system which cannot be eliminated, and therefore we will discuss with officers other ways that sample sizes could be reduced in future years, including the option of controls testing.</p>
2 ✓	<p>Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process.</p> <p>The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.</p>	<p>Working papers have improved when compared to prior years, particularly around the level of detail that has been provided for individual transaction testing. There remain areas where working papers could be improved, particularly in respect of capital working papers, working papers to support key judgements and in cases where clearer narrative is needed to articulate the views of management</p>
3 ✓	<p>VFM – Financial Sustainability</p> <p>Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.</p>	<p>Our work on the VFM conclusion has clearly demonstrated that the level of financial monitoring and reporting has been more robust than in prior years. There is clear evidence of where management have stepped in to ensure savings are either delivered or alternative savings are identified to reduce overspends to a level that the Council can manage in the short term. Given the current climate, this remains an area where the Council will need to focus significant efforts if it is to remain sustainable in the long term.</p>

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Impact on financial statements
<p>1 Following a review of the McCloud judgement, the Council have worked with their actuary to revise their estimate in respect of pension liabilities. The key impact of this is to increase past service liabilities by £6.5m. A further consequence of the McCloud judgement revision by the actuary is to increase projected service cost by £1.3m, which is an impact for future years. In updating the actuary statement, the Council, like many others have taken the opportunity to ensure that a final year end position is used for the rate of return on assets, which has previously been based on an estimate. This impact of this is also reflected in the final version of the statements as part of note 24.2.2 , which is a decrease of £2m in the fair value of assets. The final consequence of all of these adjustment is an £8.5m increase in the deficit as shown on the Comprehensive Income and Expenditure Statement.</p>	£8.500m
<p>2 In the draft financial statements REFCUS of £12.4m was included as income in the net cost of services with a reduction in capital grants and contributions (included in the line Taxation and non-specific grants) of the same amount. This is not in accordance with the Code, the total amount of capital grants should be shown in the line taxation and non-specific grants. Officers have agreed to amend the CIES and the associated notes. This error was also present in the financial statements in the prior year and we have agreed with officers a prior period adjustment of £17.1m.</p>	Nil
Overall impact	£8.500m

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Reason for not adjusting
<p>1 The Council have incorrectly accounted for capital grants unapplied. The necessary adjustment should be made via the MIRS and should not impact on the amount of income recognised in the CIES under proper accounting principles. The impact of this is understate the income on the CIES by £6.1m. Given the impact on the CIES, MIRS and associated supporting notes and the value below materiality, the Council have declined to amend for this error. The audit team agree with this view.</p>	The balance is not material

Audit Adjustments

Misclassification and disclosure issues

The table below provides details of misclassification and disclosure issues identified during the audit which have been discussed with officers. We indicate on the table below which areas have been adjusted for in the final version of the financial statements and which have not been adjusted for and will be considered as areas for improvement in future years.

Disclosure omission	Detail	Adjusted?
Presentation and disclosure – reporting of the financial statements of the County Council and the Pension Fund	The Council chose to publish their draft financial statements for the County Council and the Pension Fund in two separate documents. While we appreciate that officers wish to give the the pension fund accounts greater prominence, the Code requires that these two sets of accounts are published in one document. We have agreed with officers that a revised document will be produced for publication that incorporates both sets of accounts as required by the Code.	Yes
Presentation and disclosure	<p>This year the Council have undertaken a significant exercise to streamline and declutter the accounts. In doing so, they have incorporated the accounting policies, critical judgements and estimation uncertainty in the relevant note to the accounts rather than highlighting separately. While this overall approach is in line with the Code, the desire to declutter has led to the omission of some key policies and narrative which are specifically needed. In particular additional disclosure has been made in relation to the following items;</p> <ul style="list-style-type: none"> • PPE • Policies in relation to council tax, NNDR and grant revenue. The Council have not included a policy in relation to the recognition of fees and charges revenue, and it has been agreed that this will be an area for improvement in future years. • A policy on expenditure recognition • An explanation in respect of the creation and use of reserves • Further narrative relating to PFI, however improvements are still needed to ensure full compliance with the Code • Improved disclosure in relation to IFRS 15 and material revenue streams • Further narrative in relation to pension valuation, however improvements are still needed to ensure full compliance with the Code. <p>In addition to those specifically highlighted above, our review of the accounts identified other minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. Examples of these amendments include missing note references, references to the incorrect year, references made to the incorrect regulations and a range of typographical errors. The proposed minor adjustments were agreed with officers and changes have been made to the final version of the statements.</p>	Yes
Critical Judgements	The narrative reflected in the financial statements does not make it clear which judgements the Council consider to be critical in applying accounting policies. While judgements are reflected in the narrative for particular notes, it is often not clear what the judgement is, or why the Council consider this to be critical. The FRC recently carried out a thematic review in this area, and highlighted that in many cases disclosures in relation to critical judgements were not sufficient. The audit team have reviewed the judgements as described in the accounts, in most instances they are not material, or simply demonstrate how the Council has complied with the Code. We have agreed with officers that this is an area of improvement for future years and therefore no amendments have been made to the financial statements. We do not consider this a material omission for the purposes of the opinion.	No

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Adjusted?
Estimates	As for critical judgements, the narrative within the accounts does not clearly signpost which accounting estimates have been made that have a significant risk of resulting in a material adjustment. . The FRC recently carried out a thematic review in this area, and highlighted that in many cases disclosures in relation to estimates were not sufficient. We have agreed with officers that this is an area of improvement for future years and therefore no amendments have been made to the financial statements. We do not consider this a material omission for the purposes of the opinion.	No
Financial Instruments	2018/19 saw the introduction of IFRS 9 in relation to financial instruments. This was a fundamental accounting change. The draft financial statements omitted a number of disclosures in relation to this change, and while the impact of the change was not material for the Council, the use of old terminology suggested that the requirements had not been implemented as required. Officers have made amendments to improve the disclosures, however this is an area that requires improvement in futures years. We do not consider this a material omission for the purpose of the opinion.	No
Surplus Assets	Surplus assets of £7.4m have been included with assets held for sale and reported as a single line called 'non-operational assets' on the face of the balance sheet. This is not in accordance with the Code. Officers have agreed to amend the balance sheet and the associated notes.	Yes
Note 6 Section 75 Agreement	The disclosure in the draft financial statements is not sufficiently clear for a reader of the accounts to understand the nature of the arrangements. Work is still ongoing in this area at the time of writing the AFR.	No

Fees

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Overruns as a result of the need to test additional sample items and additional queries on key working papers.	March and June 2019	As highlighted previously, given the nature of the output from the financial system, we have had to undertake additional substantive testing on balances compared to the level anticipated within the fixed fee. Key working papers, particularly on assets not revalued in year were not available at the start of the audit, and the audit team have taken additional time to work with officers to ensure that the accounts are not materially misstated.	4,450

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	95,446	73,493	73,493
Additional Audit Fee (see above)	28,185		13,450
Total audit fees (excl VAT)	123,631	73,493	86,943

The fees reconcile to the financial statements as per the reconciliation below.

- fees per financial statements £98k
- reconciling item – (£20k) overrun from 2017/18 charged in 2018/19 not accrued for
- reconciling item 2 – (£4k) TPA grant certification
- total proposed fees per above £74k

Non Audit Fees

Fees for other services	Fees
Audit related services:	£4,200
• Certification of teachers' pension return	
Non-audit services	
• CFO Insights	£12,500
	£16,700

Audit opinion

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

Independent auditor's report to the members of Worcestershire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Worcestershire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and

Audit opinion

controls or that risks are satisfactorily addressed by internal controls. We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 20, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial

statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided. The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Audit opinion

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Peter A Barber, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

Management Letter of Representation

Worcestershire County Council

Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Worcestershire County Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are [either] immaterial to the results of the Council and its financial position at the year-end [or] for the reasons noted on the schedule [or] for the reasons noted below:

The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Management Letter of Representation

- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 29 July 2019.

