

Agenda

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The Audit Findings for Worcestershire County Council

Year ended 31 March 2015

26 June 2015

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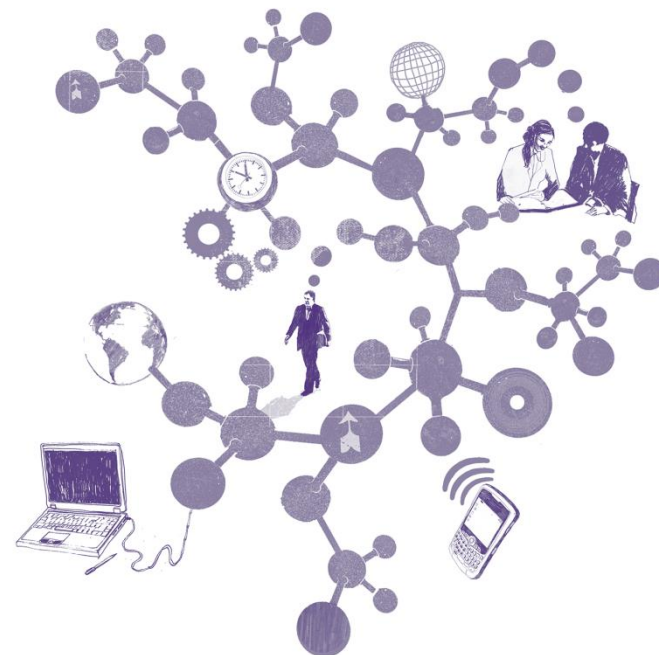
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26 June 2015

Dear Members

Audit Findings for Worcestershire County Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Worcestershire County Council, the Audit and Governance Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

John Gregory
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Worcester County Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 20 March 2015.

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

- schools accounting,
- PPE, particularly valuations,
- consistency of the Movement in Reserves,
- review of Prior Period Adjustment for Voluntary Aided and Voluntary Controlled schools,
- operating expenditure,
- a range of less significant disclosure issues,
- review of the final version of the financial statements,

- obtaining and reviewing the final management letter of representation,
- review of final version of the Annual Governance Statement, and
- updating our post balance sheet events review, to the date of signing the opinion.

In addition we need to wait until the appointed day and conclusion of the public inspection period for the accounts to have passed. Should we receive any formal objections to the accounts, we would need to evaluate the nature of the objection and consider the impact on the accounts. This may delay both the opinion and VFM conclusion, as well as the issue of the formal audit certificate.

We are also required to review the Whole of Government Accounts consolidation pack and report to the DCLG. As in previous years, the authority will provide this in August, and we will complete the work in line with the statutory timetable.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We requested management to make a number of adjustments to improve the presentation of the accounts. These are set out in section 2. Management agreed to make all the changes required by us. None of these adjustments affected the General Fund Balance or Directorate Earmarked Reserves. The majority of the audit adjustments related to disclosures for Property Plant and Equipment and in relation to schools accounting.

Financial statement opinion

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

- The draft accounts were presented for audit in line with the timetable agreed, but the quality was not as high in prior years
- Not all working papers provided were fit for purpose, and more significant delays were experienced this year in responses to audit queries
- Substantive testing has identified errors in both employee remuneration and operating expenditure. In both cases this has led to additional sampling being undertaken, plus more detailed quantification work to ensure that the results of the testing did not indicate a material error within the financial statements.
- As part of the audit plan we highlighted the accounting changes required in relation to schools accounting. Officers had made an assessment of the changes to the financial statements and provided some evidence to support this on the last day of the audit site visit. At the time of writing this AFR there is some additional information still to be provided to us by the Authority with regard to the evidence received. Given the timescales involved we are yet to review all the evidence in context to support the judgement made by the Authority, and will provide a verbal update at the Audit and Governance meeting. Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

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

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is scheduled for September, with the deadline for completion the 2nd October.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to information technology. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Financial Officer.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Financial Officer and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
June 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the audit committee on 20 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 20 March 2015

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 23/24	<p>1. Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Worcestershire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition, • Opportunities to manipulate revenue recognition are very limited, • The culture and ethical frameworks of local authorities, including Worcestershire County Council mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, Tested for unrecorded liabilities by reviewing payments after the year end, and Reviewed the Council's accruals process and tested accordingly (including goods received). 	<p>Testing of unrecorded liabilities identified an error where the expenditure had been incorrectly coded to the 2014/15 financial year. Further extended testing was performed, and more similar errors were identified. We have asked officers to review the testing undertaken and provide an analysis to demonstrate that the errors found are not indicative of a material error within the financial statements. We are currently reviewing the evidence provided and will provide members with a verbal update during the audit committee meeting.</p> <p>Testing of creditor balances has shown a number of balances in excess of 12 months old. We have worked with officers to quantify and assess the validity of older creditor balances, and have gained sufficient assurance that this does not indicate a material error in the accounts. However, officers will need to review the balances to ensure that they are correctly classified in future years.</p>
<p>Employee remuneration</p>	<p>Employee remuneration and benefit obligations and expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, Reconciled the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger, Carried out a trend analysis of monthly payroll data, and Tested a sample of individual employees. 	<p>Testing of individual employees back to contract documentation identified that from in an initial sample of twenty employees, three did not have adequate supporting documentation for the rate at which they had been paid. In both cases these related to workers on flexible contracts.</p> <p>We extended our sample testing in this area, and selected a further five flexible contracts, where a further two lacked appropriate supporting documentation.</p> <p>We have worked with officers and have appropriate assurance that this error does not have a material impact on the financial statements.</p>

Significant matters discussed with management

	Significant matter	Commentary
Page 233	Schools accounting – recognition of voluntary aided and voluntary controlled schools	<p>In December 2014 CIPFA issued LAAP Bulletin 101 'Accounting for Non-Current Assets Used by Local Authority Maintained Schools'. The LAAP bulleting confirms that 'property used by schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for property'.</p> <p>As a result authorities are required to form judgements on a case by case basis to establish the rights and obligations of all parties in relation to the use of school buildings and underlying land. While officers have considered the appropriate factors in reaching their judgement that all voluntary aided and voluntary controlled schools should remain off balance sheet, there is currently insufficient evidence to support this judgement. We are working with officers to resolve this and a verbal update will be provided at the audit committee.</p> <p>Given the significance of this change in accounting policy and the nature of the judgements involved, we have discussed with officers the need to revise both the accounting policy note and the critical judgement note in relation to schools accounting.</p>
	Schools accounting – consolidation of maintained schools	<p>In March 2014, CIPFA/LASAAC concluded that schools are separate entities and that under IFRS 10, maintained schools meet the definition of entities controlled by local authorities which should be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. This includes income and expenditure as well as assets and liabilities.</p> <p>Discussions with officers have confirmed that all significant accounting entries are captured for schools via the financial accounting system. However we have highlighted areas, including school funds, that have not been considered. The Authority considers that it has included all balances that are material to the Financial Statements. We have discussed a way forward with officers, but are currently awaiting the outcome of the work that is being undertaken. We will provide a verbal update at the audit committee.</p>
	3. Calculation of the minimum revenue provision	<p>We have reviewed the calculation of the minimum revenue provision included within the financial statements in 2014/15 and consider the approach reasonable. Following the new loan arrangements for the waste PFI contract variation, officers have reviewed the methodology for calculating the provision in future years. Further work is required in this area, which will be completed prior to the autumn.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.




Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p> <p>Page 234</p>	<p>The Council's policy on revenue recognition is included in note 40 of the Statement of Accounts.</p>	<ul style="list-style-type: none"> • The Council's policy is appropriate and consistent with the relevant accounting framework. A review of the draft accounts identified that the policy disclosed within the accounts did not specifically address revenue recognition for the sale of goods, provision of service and non-exchange revenue. The accounts have been amended to reflect the policies applied. • Minimal judgement is involved. • The accounting policy is properly disclosed. 	
<p>Estimates and judgements</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • pension fund valuations and settlements • revaluations • Impairments • PPE valuations • provisions, and • PFI 	<ul style="list-style-type: none"> • The Council's policy is appropriate and consistent with the Local Government Code of Accounting Practice • Reliance on experts is taken where appropriate • Accounting policies are properly disclosed • We have reviewed the accounting models the Council have used to calculate the entries required in the accounts for the three current PFI schemes in operation. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. In all three cases there are differences, however these are below our level of materiality and therefore we consider that no further action is required. 	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient



- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements - local authority maintained schools	The policy is currently contained within note 41 – critical judgements in applying Accounting Policies	We have reviewed the judgements currently contained within the accounts and have highlighted areas where these need to be strengthened: in particular, how the authority has considered rights and obligations in their assessment and the level of formal evidence they have been able to obtain to support the judgements made. Following a further revision of the note we have made more specific recommendations to officers as to how the note should be amended to ensure compliance with the Code.	
Going concern	Officers have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of the accounting policies highlighted that policies on prior period adjustments and PPE disposals had been omitted. Amendments were also suggested to the benefits payable policy, termination benefits and joint operations to ensure greater compliance with the accounting standards. The accounts have been amended to reflect the policies applied.	

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Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have discussed the risk of fraud with both management and the audit committee, we have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found material disclosure errors in the financial statements, which officers have amended for.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from PWLB for loans and requested from management permission to send confirmation requests for all bank and investment balances . This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, however requests were not received from LGIM so we undertook alternative procedures, including review of the correspondence that had been received by the Council from LGIM and recent investment statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1. Page 237	●	<p>Default passwords on accounts The organisation has not adequately secured the SAP default accounts. The review noted that default passwords were still assigned to default accounts: SAPCPIC and TMSADM.</p> <p>This was also raised as a finding in the prior year's audit and has not been addressed</p>	Default passwords should be changed to avoid the risk of system compromise. A priority should be to change default passwords on dialogue accounts and accounts used to run RFCs between the SAP clients.
2.	●	<p>End-users with conflicting roles We performed a data analytics exercise to identify users who have conflicting functionality within the SAP environment. This identified a large number of users who have functions that are considered a risk for users to have in combination.</p>	Management should undertake a review of the design of SAP roles within the application to ensure that business process rules are adequately reflected within the application.

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

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.

Internal controls continued

	Assessment	Issue and risk	Recommendations
Page 238	●	<p>Access to production databases is not limited to approved production application programs and administrators having no conflicting responsibilities</p> <p>Users have indirect access to the database via operating system commands in SAP. This was raised as an issue in the prior year's audit, the same 32 members of staff still have access to the transaction code SM49 for 2014-15.</p>	<p>Access to the transaction SM49 should be removed from all users. Permissible operating system commands can be issued from transaction code SM69. Where new commands are required, they should be defined in SM49 under change control conditions and used by an appropriate fire-fighter type ID that is monitored.</p>
	●	<p>Related party transactions</p> <p>There is no circulation performed for Senior Officers' interests: they are monitored on an exception basis. The officer makes the declaration to their line manager and it is recorded in Officers' declaration and transferred to the electronic register.</p>	<p>Officers should consider whether a more positive declaration is required to inform the year end process.</p>

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	As part of our review of the Annual Governance Statement (AGS), we noted a number of Internal Audit reports, across different directorates, with limited assurance in the area of commissioning. It was unclear from our review of the AGS compilation process how cross cutting themes of this type are identified from the directorate assurance statements. This raises questions as to how the completeness of the statement is ensured.	<ul style="list-style-type: none"> The assurance statements completed by directorates have been amended to specifically highlight the need to consider any internal audit reports, and the impact that these may have on the level of assurance. All of these statements have been considered by the Chief Financial Officer and Chief Executive prior to signing the AGS. As part of the audit we have reviewed all limited assurance reports produced by Internal Audit, and have gained sufficient assurance that issues have been appropriately reflected in both directorate assurance statements and the AGS.
2.	✓	The CIPFA Code of Practice gives Council's two alternative ways to calculate their Capital Financing Requirement. (CFR). Both methods should produce the same results, and it is recognised good practice for authorities to ensure periodically that both methods of calculation produce the same results. As in previous years the CFR has been calculated on the cumulative method in the accounts. Our testing has not identified any errors with the calculation. In line with best practice officers have compared this method to the Balance sheet method. The difference between the 2 calculations is £5.6m, which represents 1.4% of the closing CFR. The cumulative method produces a calculation that is lower than the balance sheet method.	<ul style="list-style-type: none"> Officers have compared both methods of calculation of their Capital Financing Requirement (CFR). The difference between the 2 calculations is now £0.3m, which represents 0.07% of the closing CFR.

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Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Statement/Notes effected
Page 240	As a result of the review of schools accounting this year the authority have identified a cumulative balance of £97.8m within the fixed asset register that relates to a range of minor capital works for both voluntary aided and voluntary control schools. The authority reviewed the guidance in this area and took the view that this balance should be written out in the 2014/15 financial statements, with any future expenditure in this area been charged to REFCUS. We agree with this treatment, however have discussed the need for officers to disclose this change in accounting policy as a prior period adjustment.	Balance sheet, Comprehensive Income and Expenditure Statement and associated notes, for balances presented in 2013/14.

Impact of uncorrected misstatements in the prior year

	Detail	Reason for not adjusting
1	Comparison of the Assets Under Construction listing for 2012/2013 and 2013/2014 highlighted that there was one asset for Alvechurch which was included in both listings. The information from the property section suggested that the amount was for demolition costs before 2013/2014. The amount is for £161k	Last year we reported that as the amount was not material there was to be no change in 2013/2014 and an amendment in 2014/2015. We have confirmed with officers that the change has been made during 2014/15 and accurately reflected within the financial statements.

Misclassifications & disclosure changes

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

	Adjustment type	Account balance	Impact on the financial statements
Page 242	1 Disclosure	Various	<p>Our review of the accounts highlighted some 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.</p> <p>Examples include a range of typographical errors, note references that had not been updated, and amounts disclosed within tables not reflecting the most up to date position. In addition we have noted some areas where additional clarity has been needed within the narrative disclosures to ensure compliance with the code.</p>
	2 Disclosure	Accounting policies	We have reviewed the accounting policies included within note 40 of the financial statements. We have requested that additional policies are added to ensure coverage of the sale of goods and provision of services, non-exchange revenue and disposals of academy schools. We have also suggested that the wording of policies on joint operations and termination benefits is clarified.
	3 Disclosure	AGS	The statement needs to be updated so that the number of internal audit reports carried out is consistent with the internal audit report at year end.
	4 Disclosure	Note 17 – Financing and Investment Income and Expenditure	Note 17 is not consistent with note 5.2 (Reconciliation to Subjective Analysis) and note 28.2 (Income, Expense, Gains and Losses). Amendment have been agreed with officers that will ensure that these notes are all internally consistent.
	5 Disclosure	Note 15 – Related party transactions	We have agreed with officers that the note in relation to Malvern Hills Science Park is amended to reflect the correct number of P1 shares held. The narrative has also been amended to clarify the voting rights and that the County Council does not have a controlling interest in the company.
	6 Disclosure	Exceptional Items	The Council have agreed that the exceptional item shown on the face of the CIES which relates to pension past service, settlement and curtailment costs is no longer an exceptional item and have agrees that it should not be shown as exceptional. The Council's ledger shows the amount in Non-distributed costs.

Misclassifications & disclosure changes

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

	Adjustment type	Account balance	Impact on the financial statements
7	Disclosure	Note 19.1 Property, Plant and Equipment	The PFI column has been incorrectly stated: amendments are required to the expenditure in year, revaluation increase, depreciation and impairment. In addition the presentation of the expenditure in year line is confusing for the reader of the accounts and officers have agreed to amend for this. An additional narrative disclosure is also to be included to highlight the material disposal of Habberly Learning Centre of £24m. Also the depreciation charge for the year is not separately shown as depreciation charge.
8	Disclosure	Note 27.4 – value of Assets and Liabilities under PFI contracts	The value of assets and liabilities under PFI contracts. For waste disposal for impairment the value should be - £2.0m and the total should be £6.4m for waste disposal.
Page 243	Disclosure	Note 19.3 Revaluations	The narrative disclosure on revaluations does not include sufficient detail on what assumptions have been used to estimate fair values. In addition, insufficient disclosure has been given to explaining how the authority have satisfied themselves that the policy of revaluing assets every five years doesn't lead to a material misstatement of asset class valuation in year.
	9	Disclosure	Note 12- Termination Benefits and exit packages
10	Disclosure	Note 26.2 Leasing Receipts	The draft accounts showed leasing expiring in less than 1 year was £1.3m, the supporting working confirmed that this should be £1m. Officers have agreed to amend for this error.
11	Disclosure	Prior Period Adjustment	A narrative note had not been included to support the change in presentation of the pension fund balances. An additional note has been requested from officers to ensure compliance with the code.
12	Disclosure	Note 19.3 Revaluations	The note currently shows the net book value position, the code of practice requires this to be presented on a gross basis.

Unadjusted disclosure issues

A number of disclosure issues to the draft financial statements have been identified during the audit process. In most cases the authority have made amendments to reflect our findings, these are included in the table above. In some instances the changes have not been made to the financial statements, and we report these below. We do not consider that the disclosures materially affect the view of the reader of the accounts.

	Account balance	Impact on the financial statements
1	SERCOP headings on the CIES	Central services to the public, corporate and democratic core and non-distributed costs should be shown on the face of the CIES. The authority have chosen to show this separately by way of a disclosure note.
2	Note 19.3 Revaluations	The narrative disclosure on revaluations does not include sufficient detail on what assumptions have been used to estimate fair values. In addition, insufficient disclosure has been given to explaining how the authority have satisfied themselves that the policy of revaluing assets every five years doesn't lead to a material misstatement of asset class valuation in year. The note should also reconcile back to total cost, rather than net book value. To date officers are looking at revising this note for the final version of the financial statements.

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Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

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These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council, like many others nationally, continues to face challenges in how to balance its budget. The outturn position for 2014/15 shows that the authority have managed to break even for the year on a budget of £332m. They have delivered the savings target of £30.5m, however £3.7m of this has been achieved using one off alternative funding.

While similar pressure points to previous years remain, for example looked after children, arrangements to monitor and manage these financial challenges appear robust. Overall, we consider the Council's medium term financial planning to be strong and that it has appropriate budget setting and monitoring arrangements in place.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. Our work has demonstrated that the future fit programme remains at the heart of prioritising resources, with both officers and members demonstrating a good understanding of where resources need to be focused.

The ambition of becoming a 'Commissioning Authority' is still a strong theme in all that the Council does, with a number of services now being provided by the private sector.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	A review of VFM profiles suggests that Worcestershire continues to be well placed when compared to others with spend per head in the lowest third. High areas of spending relate to culture and sport (in highest 20%), environmental services (in highest 20%) and spend on public health services per head, (highest 20%). The reasons for the levels of spend are understood and can be linked to the areas of priority for the Council. Financial resilience indicators also compare favourably with levels of reserves in line with other similar authorities.	Green
Strategic financial planning	<p>The budget for 2015/16 is balanced, including identified savings of £27.5m. The budget has a strong focus on the corporate priorities for the council, with the increase of 1.94% being effectively ring fenced to allow for the budget to be strengthened in the area of children's services, where the placement budget is significantly overspent as a result of the demographic pressures in this area.</p> <p>Against the health and wellbeing corporate priority the adult social care budget has been enhanced by £2m, and significant investment is also being given to various projects which support the open for business objective. These are largely capital projects and the councils element of the match funding required to support the local growth plan.</p> <p>The budget demonstrates a strong understanding of the drivers for change, and details the pressures on both income and expenditure that are key to the make-up of the budget. Furthermore the scale of savings required and the potential impact that savings may have on the delivery of services and statutory duties feeds through into the corporate risk register, with the associated mitigating actions monitored robustly on a regular basis.</p> <p>The outturn report at year end highlights the challenging savings position required in future years as part of the MTFP. Plans are in place to deliver savings of £27.5m in 2015/16, £19.9m in 2016/17 and £15.2m over 2017/18 to 2018/19. Despite these plans in place savings of £7m are still needed to be found for 2016/17, £11.7m in 2017/18 and £22.5m in 2018/19.</p>	Amber

Theme	Summary findings	RAG rating
Financial governance	The financial governance of the authority remains strong, with a focus on long term aims rather than short term measures to balance the budget. Both officers and members understand the challenging financial environment, and the need to evolve if they are to continue to provide the best services for the local community within the resources they have available.	Green
Page 248 Financial control	<p>The authority have achieved break even for the year on a budget of £332m, despite the significant cost pressures in children's services, where demand showed an increase over expectations leaving a budget deficit of £5.7m in social care placements. These pressures were met by favourable variances elsewhere, most notably from a strategy to defer borrowing costs whilst cash balances remain strong. The cost pressure in children's services was recognised as part of the 2015/16 budget setting and was the key reason for increasing council tax.</p> <p>Target savings of £30.5m have been achieved, however £3.7m (12%) of this has been using one off alternative funding. Last year the authority had to meet 6.6% of its savings target via alternative funding, which demonstrates the more complex nature of the savings required and the degree of difficulty attached to achieving plans.</p> <p>The capital spending for the year was £121.2m. This compared to a budget of £153.7m, therefore 79% spent. This compares to a year-end position last year of 80% of the budget being spent.</p>	Green
Prioritising resources	The corporate plan, Future Fit, sets out the objectives for the authority and therefore how resources should be directed. As part of this monitoring a balanced scorecard is produced every quarter, for reporting to both the senior leadership team and members. In reviewing the year end position it is clear that there are more indicators missing their target compared to previous years. This is not out of line with expectations, and demonstrates the service delivery environment is more difficult than ever before. The targets that have been missed however do not give rise to any significant concerns in the deterioration of the services provided to local people.	Green

Theme	Summary findings	RAG rating
<p>Improving efficiency & productivity</p>	<p>The Council is clear that it needs to change the way that services are delivered in the long term if it is to be sustainable. At the heart of this is a desire to only directly provide the services that it has to, or where no suitable market exists. To ensure the necessary focus on this agenda that Council has restructured in year and appointed a Director of Commercial and Change whose role it is to shape new models of service delivery which ensure the best outcomes for residents and reduce costs.</p> <p>There has been a lot of commissioning activity during the year and this is set to continue, with the headcount of the authority due to reduce significantly over the next 12 months. Recent examples included the provision of contract centres by Civica, with 50 staff due to transfer, and the contract expected to save £2.6m over its eight and a half years. Work is also on-going for schools support, and HR and finance transactional support to be provided by external providers.</p> <p>In addition the authority have also set up a local authority trading company called Place Partnership for the provision of estates services. The teckal company has been set up in joint partnership with Worcester City, Redditch Borough Council, Hereford and Worcester Fire Authority, Warwickshire Police and West Mercia Police. The value of work transferring into the company is in the region of £56m, with just over 200 staff transferring to the company from the 1st September 2015. The company idea came from the shared vision of the estates managers that believed that there was much to be gained by co-operating on estates management. This was not just in terms of savings, but a need to work together to get a better result in terms of service delivery and optimising the assets that were available to public bodies.</p>	<p>Green</p>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Monitoring of the waste contract Page 250	<p>In reporting the VfM conclusion last year we highlighted an issue in relation to reporting to members officers' views of the preferred technological solution and the reasons for this to help make an informed decision. As the decision has now been implemented we reviewed how the contract variation is monitored by both officers and members. We found that adequate monitoring arrangements are in place for the contract, this is supported by the work done by Internal Audit, who have delivered a substantial assurance opinion on their work of the PFI waste contract variation.</p>	Green
Reporting of commissioning decisions to members	<p>We reported last year that while there had been a number of reports to committee on the new operating model, these had focused on the potential advantages and predicted level of savings that would be possible. Within the reports there has been limited discussion on the potential disadvantages that this option has. While reporting to members still doesn't always include a detailed consideration of disadvantages, arrangements have improved in the last 12 months and there is clear evidence that members understand the impact of the decisions of becoming a commissioning authority.</p> <p>This is a key area for the authority going forward, both in terms of letting new contracts, but also making sure that arrangements are in place for getting the best value for contracts already in place. The change in the structure of the authority to focus on this, should ensure that further enhancements are made in this area.</p>	Amber
Review of reporting from other regulators	<p>From our review of minutes of the authority and recent press articles we identified that the authority had a serious case review in progress. While this is not untypical for authorities with both social and children's services, a number of reviews could indicate service failings, we have no evidence to suggest that this is the case within Worcestershire.</p>	Green

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

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Fees, non-audit services and independence

We confirm below our fees charged for the audit.

Fees		
	Per Audit plan	Actual fees
	£	£
Council audit	127,261	TBC*
Total audit fees	127,261	TBC*

*There has been some additional work requirements over the course of the audit process which will challenge the ability to deliver audit services within the existing fee structure. It is normal process for these issues to be discussed in more detail with the Chief Finance Officer over forthcoming weeks before agreement to any proposals regarding fee increases, which will also be subject to PSAA sign off. We will report the final fee to the Council in our Annual Audit Letter.

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Annual Audit Letter. Initial discussions have been held with officers regarding the certification arrangements for both the teachers' pension claim and the major transportation grant which while outside the Audit Commission regime will still require an audit certificate.

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

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Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 256	1. Default passwords should be changed to avoid the risk of system compromise. A priority should be to change default passwords on dialogue accounts and accounts used to run RFCs between the SAP clients.			
	Management should undertake a review of the design of SAP roles within the application to ensure that business process rules are adequately reflected within the application.			
	3. Access to the transaction SM49 should be removed from all users. Permissible operating system commands can be issued from transaction code SM69. Where new commands are required, they should be defined in SM49 under change control conditions and used by an appropriate fire-fighter type ID that is monitored.			
	4. Officers should consider whether a more positive declaration in relation to related parties is required to inform the year end process.			

Appendix B: 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

We have audited the financial statements of Worcestershire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the [Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Worcestershire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Worcestershire County Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Worcestershire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Worcestershire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of Worcestershire County Council included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2015. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Date 2015



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