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Worcestershire County Council

Agenda

Audit and Governance Committee

Friday, 27 June 2014, 10.00 am
County Hall, Worcester

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اردو. اگر آپ اس دستاویز کی مشمولات کو سمجھنے سے قاصر ہیں اور کسی ایسے شخص تک آپ کی رسائی نہیں ہے جو آپ کے لئے اس کا ترجمہ کرسکے تو، براہ کرم مدد کے لئے 01905 765765 پر رابطہ کریں۔ *(Urdu)*

کوردی سۆرانی. ئەگەر ناتوانی تێبگەی لە ناوەڕۆکی ئەم بڵگەیە و دەستت بە هیچ کەس ناگات کە وەیگێڕێتەوە بۆت، تکایە تەلەفۆن بکە بۆ ژمارەی 01905 765765 و داوای ڕێنوێنی بکە. *(Kurdish)*

ਪੰਜਾਬੀ। ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਮਜ਼ਮੂਨ ਸਮਝ ਨਹੀਂ ਸਕਦੇ ਅਤੇ ਕਿਸੇ ਅਜਿਹੇ ਵਿਅਕਤੀ ਤੱਕ ਪਹੁੰਚ ਨਹੀਂ ਹੈ, ਜੋ ਇਸਦਾ ਤੁਹਾਡੇ ਲਈ ਅਨੁਵਾਦ ਕਰ ਸਕੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਮਦਦ ਲਈ 01905 765765 'ਤੇ ਫ਼ੋਨ ਕਰੋ। *(Punjabi)*

Find out more online:
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worcestershire county council

DISCLOSING INTERESTS

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

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

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

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

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

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

Simon Mallinson Head of Legal and Democratic Services July 2012 WCC/SPM summary/f

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Audit and Governance Committee
Friday, 27 June 2014, 10.00 am, County Hall, Worcester

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

Agenda

Agenda produced and published by Patrick Birch, Director of Resources, County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 766621, slewis@worcestershire.gov.uk

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Date of Issue: Wednesday, 18 June 2014

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The Audit Findings for Worcestershire County Council Pension Fund

Year ended 31 March 2014

June 2014

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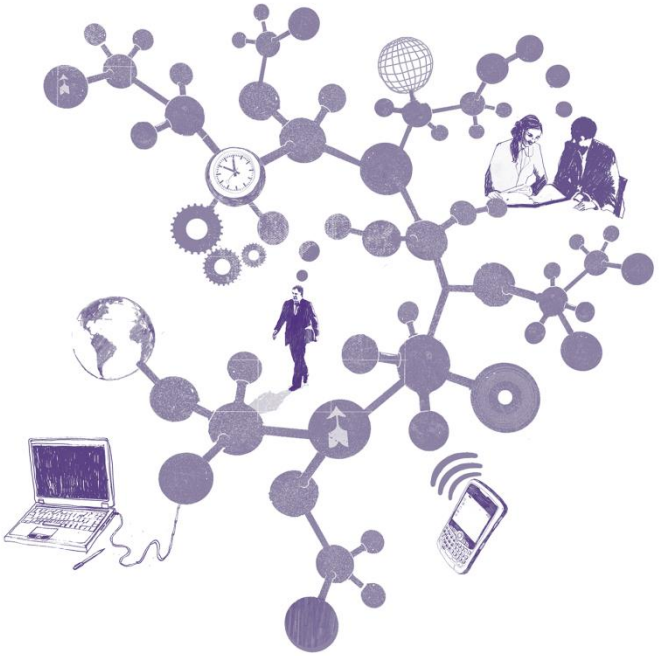

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify 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.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Worcestershire Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. 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).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, its 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.

Introduction

In the conduct of our audit we have slightly altered our planned audit approach, which we communicated to you in our Audit Plan dated 11th March 2014, to include contributions as an area of reasonably possible risk. Further detail is contained in section 2.

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

- completion of confirmation of balances from the custodian and fund managers,
- completion of final specialist partner review and national review of final accounts by technical team,
- review of the final version of the financial statements,
- obtaining and reviewing the final management letter of representation,
- updating our post balance sheet events review, to the date of signing the opinion,
- review of the annual report, and
- completion of the assurance controls work required by admitted bodies in relation to IAS 19.

We cannot formally conclude the audit and issue an audit certificate until the appointed day and conclusion of the public inspection period for the accounts. 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 the date we are able to issue the opinion.

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 have not identified any adjustments affecting the Fund's reported financial position and plan to give an unqualified opinion. We have agreed with officers some minor adjustments to improve the presentation of the accounts.

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

- As in previous years the audit of the pension fund has run smoothly with good working papers,
- We have no adjusted or unadjusted misstatements to report,
- While some control deficiencies have been highlighted as areas for improvement these are not considered significant.

Further details are set out in section 2 of this report.

Controls

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 as the administrating authority.

We have identified one control issue in relation to member data. Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements have been discussed with the Director of Resources 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 2014

Section 2: Audit findings

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 findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 11 March 2014. 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

Following discussions with our technical team we have included contributions as a reasonably possible risk area within the audit. This was considered appropriate given the material nature of the balance and the number of transactions that are processed on an annual basis. The work we have completed in this area is set out on page 11.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion.

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 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
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	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. Our testing did however identify three journals where there was no evidence that these had been authorised. A review of the supporting documentation for these journals did not raise any areas of concern. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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
Investments	Investments not valid Investment activity not valid Fair value measurement not correct	We have documented the controls in relation to this cycle and walked these through to confirm our understanding. We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records. This work is yet to be completed as we are awaiting information from the custodian at the date of writing the report. We have obtained direct confirmation of investment balances from the custodian and external fund managers and gained explanations for variances identified. We have obtained direct confirmation of the existence of investments with the custodian and fund managers. We have tested a sample of investments to independent data to ensure they are recorded at the correct value.	Our audit work to date has not identified any significant issues in relation to the risk identified.
Benefit payments	Benefits improperly calculated/claims liability understated	We have documented the controls in relation to this cycle and walked these through to confirm our understanding. We have tested a sample of individual pensions in payment, lump sum benefits and refunds back to appropriate source documentation. We have reviewed pensions paid compared to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct.	We have undertaken the following work in relation to this risk: • Documented the controls in relation to this cycle and walked these through to confirm our understanding, • Confirmed with the fund that it received all expected contributions from member bodies, • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. • Tested a sample of contributions to source data.	Our audit work has not identified any significant issues in relation to the risk identified.

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
Revenue recognition	There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.	• The policies are considered appropriate under the accounting framework in place.	●
Judgements and estimates	Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code. Similarly because of the balance of investments made by the fund there is little estimation uncertainty because valuations are made based on market data.	• The policies are considered appropriate under the accounting framework in place.	●
Other accounting policies	The remainder of the Fund's Accounting policies are set out in part 5 of the accounts. These have been reviewed as a result of undertaking the detailed testing of the fund balances.	• Our review of accounting policies has highlighted some areas that would benefit from clarification. Officers have agreed to make these changes, none of which are considered individually significant.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

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
Presentation and disclosure	Various	Our review of the accounts highlighted a number of 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 include, amending note 23 to the accounts to clarify that additional voluntary contributions are not consolidated within the pension fund accounts, and adding an additional disclosure to explain that the incorporation of the requirements of IFRS 13 into the Code has been deferred until 2014/15. This is in addition to the need to tidy up formatting and some punctuation prior to publication.

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. 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	Comments
	●	• As part of our responsibilities as the auditor of the pension fund we are required to provide a level of assurance to the auditors of a number of admitted bodies, should they request it. The assurances include comments around the controls in place for member data. A key control in relation to member data is the reconciliation that is carried out at year end between the ALTAIR system and returns from each employer that contribute to the scheme. Given the timing of our audit, these have not been returned from all employers, and therefore the control has not been fully implemented.	• We need to update our review in this area prior to responding to admitted bodies.

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

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**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	24,963	24,963
Agreed fee variation	1,193	1,193
Total audit fees	**26,156**	**26,156**

Details of the fee variation were included within the audit plan dated 11th March. Members agreed this variation.

The fee variation above takes account of the work we are required to undertake for admitted bodies within the Audit Commission regime. We have recently received requests from two housing trusts, which we are required to respond to. We will discuss with officers an additional fee variation for these responses.

Fees for other services

Service	Fees £
None	Nil

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 4: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other 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		✓

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worcestershire county council

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

Dear Sirs

Worcestershire County Council

Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Worcestershire County Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting. All representations cover both the Council's accounts and Pension Fund accounts included within the financial statements.

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 financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v. We are satisfied that the material judgements used by us 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 further material judgements that need to be disclosed.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 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 retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or

implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii. 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.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.

ix. We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

x. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi. 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

xii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the 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.

xiii. We have communicated to you all deficiencies in internal control of which management is aware.

xiv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv. 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.

xvi. 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:

d. management;

e. employees who have significant roles in internal control; or

f. others where the fraud could have a material effect on the financial statements.

xvii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xviii. 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.

xix. We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx. 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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 27 June 2014.

Signed on behalf of the Council

Name……

Position…….

Date…….

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Audit and Governance Committee
27 June 2014

6. ANNUAL GOVERNANCE STATEMENT

Recommendation	**1. The Chief Executive recommends that the Annual Governance Statement be approved.**
Background Information	2. The Accounts and Audit Regulations 2011 require the County Council to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the Authority's financial statements. Responsibility for the review and approval of the AGS has been delegated to this Committee. 3. The purpose of the AGS process is to provide a continuous review of the effectiveness of internal control and risk management systems so as to obtain assurance of their effectiveness. 4. This assurance is obtained from reliance on signed certificates from each Head of Service, and in turn from each Chief Officer. 5. In preparing their own assurance certificate, each Chief Officer has confirmed: (a) that the Corporate Plan adequately identifies the principal statutory obligations and organisational objectives that fall within their responsibilities; (b) that these are reflected appropriately and managed in their Directorate Risk Registers; and (c) the extent to which their internal control systems were effective during the year. Any issues arising have been reflected where appropriate in the AGS. 6. The Annual Governance Statement confirms the overall assurance of the Council's systems and has been signed by the Chief Executive and Leader of the Council and is attached as an appendix.
Supporting Information	Annual Governance Statement – Appendix
Contact Points	**County Council Contact Points**

Worcester (01905) 763763, Kidderminster (01562) 822511 or Minicom: Worcester (01905) 766399

Specific Contact Points for this Report
Clare Marchant, Chief Executive (01905 6100) Email: cmarchant@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Executive) the following are the background papers relating to the subject matter of this report:-

Statement of Accounts 2013/14

Annual Governance Statement

1. Scope of responsibility

Worcestershire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

2. The purpose of the governance framework

The governance framework comprises systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

3. The governance framework

Service planning

The Council's planning process links corporate aims and objectives with service policies and priorities to the responsibilities of individual staff.

The Corporate Plan – Future Fit is a single document setting out the County Council's vision and overall strategic direction. The Corporate Plan - Future Fit is developed by the Leader of the County Council after each main County Council election to reflect the strategic priorities of the ruling party/parties or where there has been a significant change in the environment within which the County Council operates. Against each key area of focus the Plan identifies a number of key aims and targets, which are managed through the quarterly Balanced Scorecards. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. Progress against the Corporate Plan - Future Fit is monitored and reported to councillors on a six-monthly basis. Updates take account of achievements against the Plan and any new information that needs to be included.

Statutory plans, as prescribed by Central Government, and Service Delivery Plans, which cover areas of service not covered by statutory plans, provide strategic direction and contain aims and objectives for individual services. They have a clear link to the Corporate Plan - Future Fit and contain aims and targets based directly on corporate policy priorities, as well as others reflecting additional service policy priorities. Progress against service delivery and statutory plans is managed through Cabinet Members Responsibilities reviews. Responsibility for producing service delivery and statutory plans rests with chief officers. Service delivery plans are produced on an annual basis and include the setting of performance improvement targets.

Compliance with Statutes and established policies and procedures is ensured through the Officers' Scheme of Delegation as set out in the Constitution and also the appointment of separate individuals to the posts of Head of Paid Service, Monitoring Officer and Chief Finance Officer each of whom has specific statutory responsibilities relating to the governance of the County Council. The Scheme of Delegation sets out general delegations and responsibilities which all Chief Officers have and those specifically delegated to a particular Chief Officer. The Scheme also contains restrictions on the way officers carry out their functions. The County Council also publishes an Officers' Code of Conduct as part of the Constitution which applies to all officers of the County Council.

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It is

also the successful management of the controlled environment in which the decision making process is undertaken, such that positive risks are taken in order to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements.

Financial management

The County Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Resources is the County Council's Chief Financial Officer and is a member of the Strategic Leadership Team and helps to develop and implement strategy and deliver the County Council's strategic objectives sustainably and in the public interest. Resources financial services staff are actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the County Council's financial strategy. The Director of Resources leads the promotion and delivery by the whole organization of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The County Council has a four year rolling Medium Term Financial Plan (MTFP) which is used to inform the annual budget setting process. The MTFP is updated annually as part of the budget setting process.

The Constitution formally sets out parameters for the financial management of the County Council and Service Directors are responsible for budgetary control within their services. Budget monitoring reports are routinely considered by both officers and elected members. In addition there are a range of national indicators against which services are monitored during the year and the results are published on an annual basis.

Balanced Scorecard

The Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Future Fit with the vital finance, workforce and process measures that support their delivery. The indicators have been specifically designed to reflect the needs of the County Council rather than meet central government requirements, following consultation with a focus group of residents. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is measured and reported internally on a quarterly basis and publicly every six months.

Political structure

The County Council has adopted a Leader and Cabinet executive governance model. The executive consists of the Leader of the County Council and other appointed councillors and is described as the Cabinet. The Cabinet is responsible for most day to day County Council decisions. Cabinet make decisions in line with the overall policies, priorities and budget set by the County Council. Political decisions on executive functions are generally taken by the Cabinet collectively. No individual members of the Cabinet have (as yet) standing general delegated powers to make formal decisions within their portfolio on behalf of the Cabinet, but an increasing number are being given specific delegated powers by Cabinet on particular topics. Cabinet also considers and responds to reports and recommendations from the Overview and Scrutiny Performance Board.

Cabinet members have specific areas of responsibility:

- Finance
- Environment and Waste Management;
- Localism and Communities;
- Children and Young People's Social Care, Education and skills;
- Economy and Infrastructure;
- Adult Social Care;
- Health and Well-being;
- Education and Skills;
- Highways and Transport; and
- Transformation and Change.

The full Council comprises all elected members and is responsible for agreeing the main policies and priorities for all services (overall policy framework), including the County Council budget. The County Council also elects the Leader of the Council and establishes the other (non-executive) committees and panels of the County Council. The Chief Executive, Head of Legal & Democratic Services and the Chief Financial Officer can also submit reports to the full Council.

The Overview and Scrutiny Performance Board is made up of eight Councillors who are not on the Cabinet, plus two Church Representatives and two Parent Governor Representatives. Its main role is to scrutinise the work of the County Council and agree the scrutiny programme. The Board will commission scrutiny through itself, the Scrutiny Panels or time-limited Scrutiny Task Groups.

The Audit and Governance Committee supports effective corporate governance and gives assurance to the County Council and the public on financial and performance issues, risk management and other relevant controls. The Audit and Governance Committee considers and approves the annual statement of accounts on behalf of the County Council, considers the audit plans of both internal and external auditors and comments on their reports.

Members are covered by a Code of Conduct that that sets out the rules governing their behaviour. The Code covers areas of individual behaviour, disclosure of interests and withdrawal from meetings where Members have relevant interests. Members are also required to record their financial and other interests.

4. Review of Effectiveness

This review of the effectiveness of the governance framework is informed by assurances provided by Directors within the County Council who have responsibility for the development and maintenance of the internal control environment, the comments made by the external auditors and other review agencies and inspectorates and also the work of the internal auditors.

Each Directorate has in place a risk register which records the major risks facing the Directorate and assesses the potential impact of those risks. Registers are reviewed and added to during the year to reflect service changes. Within each Directorate there are also operational controls that are used on a day-to-day basis to control the delivery of services, none of which disclosed any significant weaknesses in control during the year.

Business continuity is well established within the County Council, is reviewed regularly within all Directorates and this is co-ordinated by the Corporate Risk Management Group chaired by the Business Planning and Performance Manager.

The County Council has received annual independent inspections by the Care Quality Commission and OFSTED during the year, neither of which identified any significant weaknesses.

In writing this statement reliance has been placed upon the Directors and their management teams who have provided reports relating to the application of the appropriate controls. Also statutory duties placed upon the Monitoring Officer and the Chief Finance Officer requires them to draw to Members' attention improper practices or financial imprudence. No issues have been reported.

The process of review of financial systems by the internal audit section is continuous. Regular budget monitoring reports have been presented to Members during the year and have confirmed that expenditure is within budget.

The County Council has contractual arrangements to govern its relationship with the majority of the organisations with which it deals. A key partner in the delivery of services is the Worcestershire Partnership Executive Group, which brings together local government, public services such as health, learning providers, police and voluntary and community organisations within Worcestershire. The role of the Partnership is to develop and deliver a vision for the future of Worcestershire that meets the aspirations of local people and which promotes the social, economic and environmental well being of Worcestershire.

Chief Executive

Clare Marchant

Leader of the County Council

Date: 23/06/2014