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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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Find out more online:
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DISCLOSING INTERESTS

There are now 2 types of interests:
<u>'Disclosable pecuniary interests'</u> and <u>'other disclosable interests'</u>

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 <u>spouse/partner</u> as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days <u>and</u>
- **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

worcestershire
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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

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Date of Issue: Wednesday, 18 June 2014

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The Audit Findings
for Worcestershire County Council

Year ended 31 March 2014

June 2014

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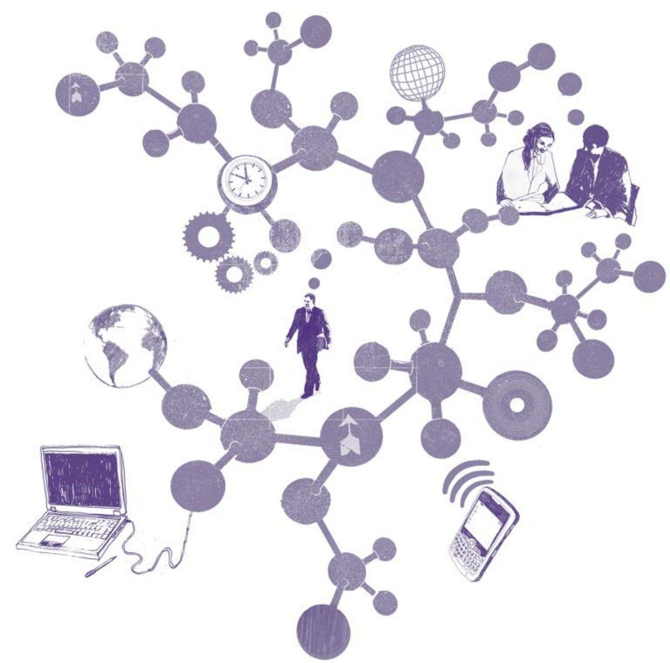

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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.

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Section 1: Executive summary

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01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Worcestershire County Council's ('the Council') 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 Council'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. 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 11th March 2014.

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

- review of accounting estimates, in relation to PFI
- 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.

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 Council's Whole of Government Accounts (WGA) consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on the value for money conclusion.

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 in the process of completing work in response to issues raised in relation to the Council's waste solution which will need to be finalised before we can conclude on the VFM element of our work.

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 which are set out in section 2. Management agreed to make all the changes requested by us. None of these adjustments effected the General Fund Balance or Directorate Earmarked Reserves. The majority of the audit adjustments identified related to Property Plant and Equipment, which is also the area where most adjustments were made to the accounts last year. We have also made a number of adjustments to improve the presentation of the accounts which are set out in section 2.

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

- The draft accounts presented for audit were of a good quality, as in previous years.
- Working papers provided were fit for purpose, with most officers responding promptly to audit queries. This could be further enhanced by:
  - additional focus and priority being given to audit queries by all areas of finance.
  - working papers being available at the start of the audit to support the fact that the value of assets, that had not been revalued in year, had not altered materially since the last valuation. These were prepared on request.
- A number of the adjustments to the accounts relate to Property, Plant and Equipment. These cover a range of specific points but in essence identify differences between the records held by the property department from those within finance. While efforts have been made by officers to address the issues raised last year, further focus on this area is required.
- An additional statement to note the contract variations signed in May 2014 in relation to the Waste PFI was made to the draft accounts presented for audit. This was necessary given the timeline for the production of the accounts and the financial close on the contract variation.
- More clarity could be added to the process for the compilation of the Annual Governance Statement to clearly demonstrate that cross cutting governance issues are considered and addressed thus providing greater assurance that the statement is complete.

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

Value for Money conclusion
Based on the work completed to date to review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we are not currently minded to modify the VfM conclusion.

However, as set out in section 3 of this report, we are continuing to consider the Council's waste solution. This was identified as a VfM risk as part of our audit planning and we have received a very high level of correspondence from the public raising specific concerns with us. Whilst a considerable amount of work has already been completed to respond to this VfM risk, additional matters continue to be brought to our attention which we are considering. As a result, we are not currently in a position to reach a formal conclusion in relation to this risk or the overall VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 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.

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.

We draw your attention in particular to control issues identified in relation to:

- Information technology, and
- Consistency between the asset register and the property section records.

Further details are provided within section 2 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 Director of Resources and the finance team.

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 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

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 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

We have not made any changes to our Audit Plan as previously communicated to you on.

Audit opinion

We anticipate that we will provide the Council 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	• review and testing of revenue recognition policies • testing of material revenue streams	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. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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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
Operating expenses	Creditors understated or not recorded in the correct period. (Completeness)	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, • Reviewed the monthly trend analysis of payments, • Performed cut off testing of purchase orders and goods received notes (both before and after year end), • Reviewed the completeness of the reconciliations to the purchasing system, and • Tested a sample of operating expenses and creditors.	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated. (Completeness)	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, • Reviewed the completeness of the reconciliations of information from the payroll system to the general ledger and financial statements, • Performed cut off testing of payments made in April and May to ensure payroll expenditure is recorded in the correct year, • Reviewed the monthly trend analysis of total payroll, and • Tested a sample of employee remuneration payments.	Our audit work has not identified any significant issues in relation to the risk identified. We did identify some trivial errors in the disclosure notes for officers remuneration and termination benefits. Officers have agreed to amend for these. No circularisation is performed for senior officers' interests. They are monitored on an exception basis. The system relies on officers to disclose interests, rather than a circularisation issued. Greater assurance would be gained if officers were reminded of their responsibility during the closure of the accounts, or if a circularisation was issued. Sample testing of employee remuneration identified that for 1 out of 12 members of staff evidence, could not be provided of the original contract documentation. We have verified other suitable evidence to demonstrate that the payments made were accurate.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, and • Tested a sample of PPE transactions covering the period 1/4/13 to 31/3/14	Our audit work has not identified any significant issues in relation to the risk identified. We identified both numerical changes to the accounts and also errors in the disclosure notes. Further details are contained within the section on adjusted misstatements.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, and • Reviewed the qualifications, terms of reference and the assumptions and methods used by the Valuer, in their work carried out as an expert for the Council, and • We have reviewed the valuation reports produced to support the accounting entries.	Our audit work has not identified any significant issues in relation to the risk identified. Following a clarification of the valuation requirements of the code we discussed with officers the need to produce evidence that assets that had not been revalued in year had not altered by a material amount. This was not provided with the working papers, but was produced on request during the audit. Officers need to consider their current valuation programme to ensure that the requirements of the code, (now clarified in relation to classes of asset) are met.

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	The Council's policy on revenue recognition is included in note 41 of the Statement of Accounts.	• The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice • Minimal judgement is involved • The accounting policy is properly disclosed	
Judgements and estimates	Key estimates and judgements include: • Useful life of capital equipment , • Pension fund valuations and settlements, • PFI • Revaluations, • Impairments, and • Provisions.	• 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 • Note 42. Assumptions made about the future and other major sources of estimation uncertainty. Depreciation and valuation. Greater compliance with the CIPFA Code could be achieved if the Council included an element of sensitivity analysis in relation to these estimates. • 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. For both Bromsgrove School and 'The Hive' there are differences between the models, however the differences on the liability stated is £2.9m and £4.8m respectively, both below our level of materiality. We are awaiting the information in respect of the Waste PFI to be able to conclude this testing. We will provide members with a verbal update at the audit committee.	

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	●

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

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Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all 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
1	Perryfield school has been removed from the balance sheet when it should not have been. The school was removed as there was confusion over another school going to academy status. Therefore PerryField's needs to be included back in the balance sheet. The net book value of the asset value of the asset is £1.5m. The gross value of the asset is £1.6m with deprecation of £0.1m	Balance sheet and Comprehensive Income and Expenditure Statement, including the analysis on note 18 to the statements.
2	The audit team was informed after receipt of the accounts that the Council had not put through revaluations for 8 assets. The total revaluations not put through was £2.2m. This will increase the value of land and building by £2.2m and increase the revaluation reserve by £2.2m	Balance sheet, including the analysis for notes 4 and 18 to the 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
1	Disclosure	Grants – Note 13	Grants did not reconcile to the CIES and note 5.2. This is because note 13 currently includes revenue and some capital grants. The latter are shown in the taxation and non-specific grant income line which is below the net cost of services. The Council need to review the note to determine whether capital grants should be included. Whilst the sampling was being determined it also showed that the public health grant currently showing as £25.9m in the note should be £18.4m and in Children's services there should be a grant listed of £7.3m which is for Education Services Grant.
2	Disclosure	Grants – Note 13	This note included cash received in respect of grants and not the amount that should be received and is in the CIES. The difference is £0.9m. Further clarity is needed as to the description of the note.
3	Disclosure	PBSE	An additional statement to note the contract variations signed in May 2014 in relation to the Waste PFI was made to the draft accounts presented for audit. This was necessary given the timeline for the production of the accounts and the financial close on the contract variation.
4	Disclosure	Assets under construction	In the draft accounts additions are shown as £5.9m, this is the net effect of the increase and transfer in assets under construction. Tudor Grange School has been transferred to Land and buildings but this is not reflected in the note and the increase in AUC for the Habberley learning centre of £8m has not been shown as an addition. The Council has reviewed the Assets under Construction to capture the required amendments and have updated disclosures in the accounts.
5	Disclosure	Exit Packages	In the Exit Packages testing, the banding for one of redundancies should have been in £60-80k and not £40-60k. The £40-60k band should have 9 (one less) in total and the £60-80k should have 4 (one more). Further adjustments were also noted in relation to the prior year comparators.

	Adjustment type	Account balance	Impact on the financial statements
6	Disclosure	Employee Remuneration	Errors in the banding for 2013/14 have been identified, in addition to errors identified in the comparators used.
7	Disclosure	Pooled budgets	We have identified some errors within this note, most notably £1.5m of partnership income needs to be added to the disclosure for wheelchairs In addition the working papers and supporting documentation for this note was difficult to follow and required additional audit effort to ensure that the disclosure was in line with expectations and the agreements in place.
8	Disclosure	Note 5.2 Reconciliation to Subjective Analysis	This table included numerous cases of transposition error which effected the calculations.
9	Disclosure	Cash flow statement	Various amendments were identified in relation to the notes that support this statement.
10	Disclosure	Notes 18.1,18.2 and 18.5 – PPE	Various amendments have been identified on these tables.
11	Disclosure	Related Party Transactions	The annual value of transactions for the LEP is currently disclosed at£6.1m, this needs correcting to £1.9m.
12	Disclosure	Explanatory Foreword	Various consistency errors were identified.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Reason for not adjusting
1	Disposals - On reviewing the disposal the Council have disposed of an asset - Bromsgrove Rylands because the asset is on a long term lease. The lease was dated from September 2012 and therefore should have been disposed of in the 2012/2013 year, this would affect the opening balance. The gross value of the asset is £2,258,285.14, depreciation £128,239.68 giving net book value of £2,130,045.46.	The amount is not considered material, and the balance had been corrected in the 2013/14 year.
2	Disposals - On reviewing the disposals the Council have disposed of an asset on 2013/2014 but it should have been disposed off in 2012/2013. This means the opening balance is overstated by £360k as the asset should have been disposed off in 2012/2013.	As the Council have amended for the asset in 2013/2014 and as the asset is not material there are no amendments to be made.
3	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.	As the amount is not material there is to be no change in 2013/2014 and it is to be amended in 2014/2015.
4	Included in the disposals for the year is an amount of £8,172,111.94 - this is split into disposal of academy assets of £3,914,474.69 and £4,257,637.25 for REFCUS adjustments. These have been disposed off during 2013/2014, however officers have confirmed that these should have been disposed of in 2012/13. As a result the opening balances are misstated. These amounts have been adjusted for in year and therefore the closing balance for 2013/14 is correct.	As these amounts were not material a prior period adjustment has not been made.

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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
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 wasn't clear 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.	• A review of the process for compilation of the Annual Governance Statement should be undertaken to ensure that the completeness of the statement can be clearly evidenced.
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.	• Officers should review the reasons for the difference identified.

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 Council.
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 Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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
- review regularly the adequacy and effectiveness of these arrangements.

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

- **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 following three expected characteristics of proper arrangements as defined by the Audit Commission:

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

The Council, like many others nationally, continues to face challenges in how to balance its budget. The outturn position for 2013/14 show s that the budget of £341m has been achieved. In reaching this position, savings of £19.5m have been made however, £1.3m were achieved through one-off measures rather than the planned recurrent savings. Plans are in place to convert this to recurrent savings in in 2014/15.

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 reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. Our work has focused on the achievements of the BOLD programme, and how this has developed into the Future Fit programme.

While the Future Fit programme sets out the areas of focus for the Council it also recognises that to achieve these ambitions within the current financial constraints a different way of working will be needed. The new operating model clearly puts the Council as a commissioner of services rather than a provider, leaving only a small core of services within direct Council control.

Work is already in progress through the Council's commissioning cycle to review the best services provider for given services. In many cases officers expect that the private sector would be best placed to be the provider of choice. The most recent example of which is the design team, which will be provided by a private firm from September 2014.

While there has been a number of reports to committee on the new operating model, these have 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.

Nationally, there is evidence that those Council's quick to embrace outsourcing are either considering, or actively bringing services back in house. Key reasons for this are poor quality of the services provided, significant failings in performance, or highly inflated prices on re-tender. To mitigate against these disadvantages robust procurement and performance management of these contracts needs to be in place. This is recognised by the Council, and work is in progress to ensure that the future operating model has the required skills to manage the wide variety of contracts that will need to be in place.

As part of the audit plan, we highlighted two specific risks in relation to the VFM conclusion. These were;

- The introduction of the Better Care Fund, and
- Plans for the new energy to waste plant at Hartlebury.

Better Care Fund

As part of our VfM work we have also considered the work undertaken by BCF partners across Worcestershire to agree and develop the BCF Plan. We are able to conclude that the partnerships to date has achieved the timescale and assurance requirements set by NHS England.

The Worcestershire Integration programme, Well Connected, has been recognised as only one of fourteen pioneer sites for integration nationally due to a recognised good track record of integrated working which has seen several early successes . The Partners have developed an ambitious high level 2020 strategy and has started well in addressing the significant challenges and how the BCF can support delivery of the strategy.

The BCF is part of a strategic high level plan which sets out the joint vision and aspirations. The Partnership is aware the plan needs to be developed into robust operational plans to ensure the vision and aspirations become a reality.

The Partners have increased the level of engagement with the providers since commencing the BCF planning process. It is vital that providers are aware of the impact the Better Care Fund will have on their operations. Engagement has developed as the plan has developed. Using existing governance arrangements and under the leadership of the Health and Well-being Board the health and social care partners need to ensure operational plans are developed and delivery monitored.

The BCF plan includes both national and local outcomes and metrics and is part of a wider dashboard reporting other metrics used to monitor and ensure delivery.

The following areas have been identified by the Partners as requiring further attention:

- providing 7 day services,
- data sharing,
- a joint approach to assessments and care planning, and
- engagement with NHS providers.

Energy to Waste project

Given the large volume of correspondence from members of the public and the unique nature of the arrangement, we have undertaken a detailed review of the arrangements in relation to the energy to waste plant.

Residual Risk identified

The Worcestershire and Herefordshire Waste Private Finance Initiative (PFI) contract with Mercia Waste Management Ltd was set up in December 1998 with the intention of developing a waste disposal facility that would come on stream early in the contract. It was predominantly based around what was then described as a waste to energy facility for which planning permission was subsequently not obtained. Since planning permission was refused in April 2001, alternative technologies and ways forward have been explored to help allow both parties to meet national targets for recycling and reduce the amount of waste which ends up in landfill sites. In December 2013 the Council's Cabinet agreed to enter a variation to the existing waste contract to provide and Energy from Waste (EfW) in Hartlebury (North Worcestershire). The residual risk identified was that arrangements are not in place to ensure that this variation to the existing waste contract provides value for money.

Overview of work undertaken

We have reviewed the arrangements that the Council has put in place to ensure that a variation to the existing waste disposal contract to provide for an Energy from Waste plant in Hartlebury provides value for money. This included a review of the assessment carried out by the Council in December 2013 and also the earlier assessment of the choice of technology in 2009. As part of this work, we assessed whether the Council has taken appropriate and timely expert advice.

Summary of findings

In December 2013 the Council's Cabinet agreed to enter a variation to the existing waste contract to provide an (EfW) plant in Hartlebury and the contract variation was subsequently completed in May 2014.

The December Cabinet meeting considered the option of constructing an EfW plant against other options such as "do nothing" and termination of the existing contract. It also considered alternative methods of financing the EfW plant such as private finance, mixed private finance and prudential borrowing and prudential borrowing. The assessment included both a quantitative appraisal which had been supported by the Council's financial advisers, Deloitte, and also qualitative factors. The financial appraisal also quantified risks identified in meetings of council officers and their advisers. The assessment concluded that procuring an EfW plant through prudential finance as a variation to the existing contract was the best of the options over the whole life of the plant. The Council assessed the impact of changes to some of the key assumptions used to model the cost of the options such as changes in waste volumes and increases to landfill tax. The Council has taken appropriate expert advice to inform its decisions. This has included financial, legal and technical advice.

It is clearly vital in a project of this size which has a long term impact that members are provided with all relevant information to allow them to make a considered decision. We reviewed the key decisions in this project and one of these was the choice of technology to deal with residual waste which was effectively made in 2009.

We have identified a significant issue in relation to the documentation supporting the reporting to members of officers' views of the preferred technological solution and the reasons for this to help make an informed decision. There was no detailed accompanying report to Cabinet setting out why officers (rather than consultants) considered that this choice of technology provided better value for money over other options available, taking account of cost and other key factors. Instead the accompanying officer report to the December 2009 Cabinet made reference to the fact that the technology proposed by Mercia had been ranked highly in the consultants ERM options appraisal (which had been commissioned to support the Joint Municipal Waste Management Strategy).

Appendix B contains more detail on our work.

Overall VFM conclusion

We are not currently minded to qualify the Council's VfM conclusion based on the issues identified . Our consideration takes into account the size of annual waste expenditure involved in relation to the Council's total gross budget and also that the shortcomings we found in Governance reporting, as noted above, were not in our view typical of the decision making we normally see at the Council.

As such, on the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, are currently satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. However, we may revise this view depending on the outcome of our continuing work in relation to waste.

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

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit*	127,261	TBC
Grant certification	900	TBC
Total audit fees	**128,161**	**TBC**

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*Both the significant level of correspondence from the public and the unique nature of the arrangements surrounding the waste contract means that the level of risk attached to the audit is significantly higher than envisaged by the Audit Commission when setting the scale fee which is quoted above. Work is on-going to determine the level of fee variation required for this work, particularly as we continue to receive correspondence in this area which we have a statutory duty to consider. We will discuss the level of additional fee required with officers and then submit this for approval to the Audit Commission. Our initial estimate of the fees for the work completed to date is £35,000. We will report the final fee to the Council in our Annual Audit Letter.

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 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

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		✓

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

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Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Further work is needed to ensure that the differences identified between property services and the asset register held by finance are eliminated and actioned on appropriately within the accounts.	Deficiency	Agreed to review the process with a view to eliminating as far as possible inconsistencies of information held between departments.	Senior Finance Manager, Strategic Financial Planning and Reporting. December 2014
	Consideration should be given as to whether all officers should be asked to make a declaration of interests as part of the closure of the accounts.	Deficiency	Consideration will be given to enhancing the existing process.	Head of Legal and Democratic Services. December 2014
3	Officers need to consider their current valuation programme to ensure that the requirements of the code, (now clarified in relation to classes of asset) are met.	Deficiency	Whilst the requirements of the Code have been materially met, consideration will be given to the improvements in revaluation methodology.	Senior Finance Manager, Strategic Financial Planning and Reporting. December 2014
4	A review of the process for compilation of the Annual Governance Statement should be undertaken to ensure that the completeness of the statement can be clearly evidenced.	Deficiency	Agreed for programming into the Internal Audit 2014/15 Programme	Senior Manager, Internal Audit and Assurance. December 2014
5	Officers should review the reasons for the difference identified. between the two different methods for calculating the CFR.	Deficiency	The reasons for any difference will be investigated in time for the production of the next Statement of Accounts.	Senior Finance Manager, Strategic Financial Planning and Reporting. December 2014

Appendix B: Detailed reporting on Energy from Waste Plant

The Worcestershire and Herefordshire Waste Private Finance Initiative (PFI) contract with Mercia Waste Management Ltd was set up in December 1998 with the intention of developing a waste disposal facility that would come on stream early in the contract. It was predominantly based around what was then described as a waste to energy facility for which planning permission was subsequently not obtained. Since planning permission was refused in April 2001, alternative technologies and ways forward have been explored.

There is a high level of public interest in future waste disposal arrangements and we have received an exceptionally high number of enquiries from members of the public. As a result of the level of public interest and in response to the level of risk involved, we have reviewed the current situation as part of our audit. In particular , we have focussed on the arrangements the Council has in place to ensure that value for money was obtained from any variation to the contract. We provide below a summary of our conclusions to date from the work.

For many years the Council has been seeking, with its partner Herefordshire Council, to vary its privately funded contract for waste management which will allow both parties to meet national targets for recycling and reduce the amount of waste which ends up in landfill site. In December 2013 the Council's Cabinet agreed to enter a variation to the existing waste contract to provide an Energy from Waste (EfW) plant in Hartlebury in North Worcestershire and the contract variation was subsequently completed in May 2014.

The December 2013 Cabinet meeting considered the option of constructing an EfW plant against other options such as "do nothing" and termination. It also considered alternative methods of financing the EfW plant such as private finance, mixed private finance and prudential borrowing and prudential borrowing. The assessment included both a quantitative appraisal which had been supported by the Council's financial advisers, Deloitte, and also qualitative factors. The financial appraisal included a quantification of risks identified in meetings of Council officers and their advisers. The quantitative appraisal used discounting techniques to take account of the profiles of expenditure for each of the options as would be expected in any large capital project decision.

The Council also assessed the impact of changes to some of the key assumptions used to model the cost of the options such as changes in waste volumes and increases to landfill tax. The preferred option from a value for money perspective remained unchanged even where more pessimistic assumptions were employed by the Council's advisers. The assessment concluded that procuring an EfW plant fully financed through prudential borrowing as a variation to the existing contract was the best of the options over the whole life of the plant.

The December Cabinet report concluded that, in net present cost terms, the chosen option would be £128 million cheaper than the "continue as is" option. over the 25 year period post construction. The report stated that it would add around £6.6 million to the annual unitary charge to be paid to the contractor. The choice of technology has been the subject of public debate. In 2009 there was an evaluation of options as part of the review of the Joint Municipal Waste Management Strategy (JMWMS). Members were consulted with, focus groups were held and there was engagement with businesses. A large postal survey was undertaken from which there was a reasonable response rate. The consultation was made available on-line. The consultation identified that a key focus for the public was climate change and that informed the strategy and final decisions. Value for money and waste prevention were also issues raised through the public consultation. The options appraisal was undertaken by consultants ERM, experts in this type of work, using a recognised and supported analysis model. A wide range of options were initially identified and a set of criteria used to identify the preferred option.

The option chosen was not necessarily the cheapest but the option identified as scoring most highly had benefits which others did not, including that it was tried and tested technology, which had been identified by the Councils as being a critical factor. The options appraisal was not weighted, in line with DEFRA advice at the time, but drew attention to the three key criteria which the Council considered most important. These criteria were developed in a workshop attended by officers and members. It took no account of transportation costs and income from heat energy and other recyclables on the advice of consultants who also stated that this would not have changed the outcome of the process. This option appraisal was refreshed by the same consultants in 2012 and the consultants concluded that the initial appraisal was still valid.

Whilst the options appraisal supporting the JMWMS carried out by ERM appeared thorough, the report to Cabinet recommending support for the choice of technology lacked detail and clarity. The 17 September 2009 Cabinet had approved a JMWMS which was now neutral on the technology to deal with residual waste as opposed to the previous strategy which had favoured autoclave technology. However as previously mentioned, the JMWMS was supported by an options appraisal produced by ERM which ranked energy from waste highly and this was included as an appendix to the September Cabinet report. The September Cabinet report stated that this options appraisal would inform the choice of future treatment of residual waste and that Mercia would be asked to come forward with a proposal. The Cabinet minutes of 17 December 2009 resolved to support, in principal, the concept contained within the Energy from Waste (EfW) proposal subsequently put forward by Mercia.

Whilst this was the point that the choice of technology was effectively made, there was no detailed accompanying report to Cabinet setting out why officers (rather than consultants) considered that this choice of technology provided better value for money over other options available, taking account of cost and other key factors. Instead the accompanying officer report made a short reference to the fact that this technology proposed by Mercia had been ranked highly in the ERM report. We would have expected a detailed officer report considering the scale of the decision which referred to and built on the ERM report. The solution proposed in December 2009 was an EfW plant with combined heat and power. Subsequently, due to the choice of site, a decision was made to provide an EfW plant which was "CHP-enabled". Whilst we can understand this decision, we cannot see where this change was reported to Cabinet until December 2013.

Project management arrangement have been in place for several years and a detailed project plan was developed. The Council understood and managed the risks associated with the project which including land use, planning, procurement, and contractual risk. Extensive external advice has been sought to understand and mitigate risks. This has included financial, legal and technical advice. In addition to the advisers already referred to, the Council employed consultants to ensure that the costs of running the EfW plant compared well with other recently procured plants and that the planned maintenance schedule, if followed, would ensure the plant is maintained to a standard which means that at contract termination the plant is in a condition which would be expected of its age. We are also aware that the Council sought advice in determining future waste volumes and recycling rates to help determine the appropriate size of plant.

Clearly a complex project of this size will continue to present significant risks and amongst these is the risk of future legislative change which may increase costs of the EfW plant. In this respect the Council obtained advice from its technical adviser, AMEC, that it was considered unrealistic to require the potential costs of these foreseeable but unquantifiable legislative changes to be included within the costed proposals except where firm proposals were available, for example legislation requiring Royal Assent. The advisers report that the contract does include a mechanism to deal effectively with such eventualities should they transpire.

Members will be aware that on 17 June 2014, the National Audit Office (NAO) issued a report on the oversight of three PFI waste projects, including that of the Herefordshire and Worcestershire. Their review focussed on how the Department for Environment, Food and Rural Affairs (DEFRA) oversees the three PFI waste projects. We met with the NAO recently to discuss their findings. The NAO highlighted two issues which the Treasury and DEFRA believed were not yet satisfactorily resolved. These were:

- whether the Councils needed to act as the sole finance provider for the project, rather than just one lender alongside a banking group; and
- the valuation of the EfW facility when the contract ends, given that the contractor will operate the facility for a much shorter period than originally envisaged.

We are currently considering the implications for our audit of the issues raised by the NAO.

Appendix C: 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

Opinion on the Authority financial statements

We have audited the financial statements of Worcestershire County Council for the year ended 31 March 2014 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 2013/14.

This report is made solely to the members of Worcestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Director Of Resources and auditor

As explained more fully in the Statement of the Director of Resources' Responsibilities, the Director of Resources 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, 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 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 Director of Resources; 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. 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 2014 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 2013/14.

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 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any 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.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, 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 2014.

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 2013, 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 2014.

Delay in certification of completion of the audit

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.

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