

Agenda

Audit and Governance Committee

Friday, 18 March 2016, 10.00 am
County Hall, Worcester

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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.

Audit and Governance Committee

Friday, 18 March 2016, 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 (Vice Chairman), Mr R J Sutton and
Mr P A Tuthill

Agenda

Item No	Subject	Page No
1	Named Substitutes	
2	Apologies/Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Director of Resources in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 17 March 2016). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 11 December 2015. (previously circulated – pink pages)	
5	Retention and Disposal of Records	1 - 2
6	Counter Fraud Report 2015/16	3 - 14
7	Internal Audit Progress Report - 1 November to 31 January 2016	15 - 30
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10	External Audit Report - Informing the audit risk assessment for Worcestershire County Council and Pension Fund	79 - 104
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 9 March 2016

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AUDIT AND GOVERNANCE COMMITTEE
18 MARCH 2016**RETENTION AND DISPOSAL OF RECORDS**

Recommendation

- 1. The Committee is asked to note:**
 - a) the training now available to all staff on good records management practices;**
 - b) the continuing work to ensure the Council is not retaining records it no longer needs to retain whilst keeping the Corporate Memory; and**
 - c) the progress made with the review of the Disposal Schedule.**

Background

2. As part of the implementation work for the Information and Records Management Policy brought to the Committee on 18 September 2015, an eLearning module promoting good records management practices was launched in week commencing 29th February 2016. Topics covered in the training include:
 - a) the purpose of records management;
 - b) how to use the Disposal Schedule;
 - c) how to use the Corporate Fileplan to manage electronic records stored in the network drives;
 - d) how to use CIMU's physical records service to securely store paper records;
 - e) hints and tips on how to practically managing records and information; and
 - f) where to obtain further advice.
3. The physical destruction of paper records that are no longer required by the Council continues - the equivalent of 510 boxes have been reviewed and destroyed between September 2015 and January 2016. This work is allowing us to more effectively manage the space needed to retain the records that we need to keep.
4. The Council's Records Manager is working through an extensive review of records that have reached the end of their useful business life in order to ensure that we keep our Corporate Memory for evidential and historical purposes. Some of the records selected for permanent preservation include original architect's plans of several local primary schools including St. Mary's CE Primary Kidderminster and Northwick Manor Primary School and records produced as part of the Council's Best Value survey in the early 2000s.
5. Work to review the Disposal Schedule has commenced and is being worked through service by service, starting with Community Services. The Registration and

Coroner's service section has been completed, and work is continuing to complete Community Services before moving onto the next service area. It is anticipated that the review will be fully complete by the end of the 2016-17 financial year.

Contact Points

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Sharon Duggan, Registration, Coroner and Corporate Information Services Manager

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Background Papers

In the opinion of the proper officer (in this case the Director of Economy and Infrastructure) the following are the background papers relating to the subject matter of this report:

Agenda papers and minutes of the Committee meeting on 18 September 2015

AUDIT AND GOVERNANCE COMMITTEE 18 MARCH 2016

COUNTER FRAUD REPORT 2015/16

Recommendation

- 1. The Chief Financial Officer recommends that the Counter Fraud Report 2015/16 (attached as an appendix) be noted.**

Background

2. Members will recall that at its meeting on 22 November 2013 it was agreed that the Council's approach to preventing fraud be reported on an annual basis (Minute no. 286 refers).
3. The attached report summarises the Council's compliance with best practice and demonstrates its continued commitment to strong counter fraud measures. It is important that the Council maintains its counter fraud response as changes to service delivery continue to evolve.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix – Counter Fraud Report 2015/16

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to this report:

Agenda papers and minutes of the meeting of the Audit and Governance Committee on 22 November 2013.

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March 2016

Counter Fraud Report 2015/16



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1. Introduction

1.1. The purpose of this report is to:

- Review the delivery of counter fraud work during 2015/16;
- Provide information on the overall effectiveness of the Council's arrangements to counter fraud and corruption.

2. Background

2.1. In administering its responsibilities, Worcestershire County Council takes a zero tolerance stance against fraud, corruption and theft, both from within the Council and from external sources. The Council is committed to an effective anti-fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities.

2.2. In July 2015 the latest national fraud statistics reported were that:

- The number of detected cases fell by more than 18 per cent to over 84,000 while their value increased by more than 11 per cent to greater than £207 million
- The number of detected cases of non-benefit (corporate) fraud decreased by greater than 8 per cent to more than 57,000, while their value increased by greater than 63 per cent to more than £97 million.

It is important that the County Council maintains high standards of probity and has a good reputation for protecting the public purse. The minimisation of losses to fraud and bribery is essential for ensuring that resources are used for their intended purpose.

3. CIPFA Code

3.1. CIPFA have setup a Counter Fraud Centre to promote best practice in preventing fraud and have published a voluntary Code of Practice – Managing the Risk of Fraud and Corruption. The Code has five key principles which are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

3.2. The Code also makes it clear that leaders of the Council have a responsibility to embed effective standards for countering fraud and corruption within the Council. Part of this process includes a statement in the annual governance report regarding adherence to the code.

3.3. There is now a voluntary assessment tool which was produced in October 2015 that Councils are able to use to assess their performance against the Code. Appendix 1 shows the Council's current position against the Code's Principles.

Worcestershire County Council Internal Audit Services

3.4. CIPFA's Code of Practice details the following policies as a minimum requirement:

	Policy	Date last reviewed	Action	Responsible Officer
1.	Counter fraud policy	February 2013	Review by March 2017	Internal Audit
2.	Whistleblowing policy	December 2015	Review by March 2017	Internal Audit
3.	Anti-money laundering policy	2013	Review by March 2017	Chief Financial Officer
4.	Anti-bribery policy	Included in Counter fraud policy.	Review by March 2017	Internal Audit
5.	Anti-corruption policy	Included in Counter Fraud Policy.	Review by March 2017	Internal Audit
6.	Gifts and hospitality policy and register	Included in Codes of Conduct	Review by March 2017	Monitoring Officer
7.	Pecuniary interest and conflicts of interest policies and register	Included in Codes of Conduct	Review by March 2017	Monitoring Officer
8.	Codes of conduct and ethics	Members' - 2015 Officers' - 2015	Review by March 2017 Review by October 2017	Monitoring Officer Human Resources
9.	Information security policy	June 2015	Review by March 2016	ICT
10.	Cyber security policy.	Being written	Review by March 2016	ICT

3.5. It is recognised that these policies will become increasingly important in identifying and reporting potential fraud in an environment of:

- The changes to service delivery e.g. commissioning of services
- Reduced staffing
- Changes to the control environment
- Greater local autonomy
- Changes to roles and responsibilities

4. Investigative Work 2015/16

4.1. The Council does not have a significant number of irregularities. However, the size and complexity of the Council means that it is inevitable that there will be a small number of irregularities to be investigated; any significant issues are reported to the Audit and Governance Committee.

4.2. Investigations In Progress:

Worcestershire County Council

Internal Audit Services

- None.

4.3. Completed Investigations:

- Internal Audit has been involved in two instances of missing cash. In one case, following an investigation, the matter has been reported to the police and they have made an arrest and are currently carrying out their own investigations and in the other it was not possible to identify a suspect and so advice has been provided to the service to address the system weaknesses that were identified.
- There has been an allegation of obtaining grant monies by submitting fraudulent documentation, which has also been referred to the police and their investigations are on-going at this time.
- Internal Audit has also been asked by management to investigate an officer who was allegedly claiming additional hours without working those hours; following Internal Audit's investigation this case is currently going through the disciplinary process.
- Finally, Internal Audit has provided advice and support on two occasions where the service has then investigated, once for procurement irregularities and once for inappropriate claiming of overtime. In the first instance the procurement exercise was stopped and re-procured in accordance with the Council's policies and procedures and management guidance/training was given to the officer involved. In the other it appeared that the overtime claims had not been made fraudulently but in error however, prior to a disciplinary hearing taking place the officer resigned.

5. Proactive Work 2015/16

- 5.1. Internal Audit has reviewed and updated the Fraud Response Plan which describes the action individuals should take if they suspect fraud or corruption. The Fraud Response Plan is included at Appendix 2.
- 5.2. The County's testing on the 2014/15 National Fraud Initiative (NFI) data matches identified one overpayment to a care home of just over £11,000, which has since been recovered.
- 5.3. We are in the process of developing data analytics to improve the detection of fraud; this includes training in the use of Fiscal, used originally to identify duplicate payments but now with a new module for proactive fraud investigations.

6. Conclusion and Next Steps

- 6.1. The Council has a low level of detected fraud when compared with levels reported nationally. This is due to the focus on having robust controls in place to deter fraud.
- 6.2. Nonetheless, it remains essential to continue to encourage a strong anti-fraud culture both through improving the awareness of staff, members and the public and also improving the way fraud is detected. This can be demonstrated by Cabinet acknowledging the responsibility of the governing body for countering fraud and corruption.

Worcestershire County Council Internal Audit Services

- 6.3. Internal Audit will continue to review individual fraud risk areas and aim to increase awareness with the highest likely fraud risks.
- 6.4. For the policies required by the CIPFA Code, Internal Audit will liaise with the policy owner to ensure that it is up to date.

7. Recommendations

7.1. That the Audit and Governance Committee:

- 7.1.1. Are asked to note the report and the suggested actions.

**Appendix 1: Position Statement against the CIPFA code as at
March 2016.**

Principle	Position	Proposed Action	Target Date	Responsibility
1. Acknowledge the responsibility of the governing body for countering fraud and corruption	The Council has an Anti-fraud and corruption policy which was approved by Audit & Governance Committee in September 2013.	Review policy and obtain A&G approval	March 2017	Internal Audit
2. Identify the fraud and corruption risks	The Risk Management strategy does not make reference to identifying fraud and corruption risks.	When the strategy is next reviewed more specific information on identifying fraud and corruption should be included	March 2017	Corporate Risk Management Group
3. Develop an appropriate counter fraud and corruption strategy	Strategy exists and was last updated 2013.	Needs to be reviewed.	March 2017	Internal Audit
4. Provide resources to implement the strategy	The internal audit plan includes provision for investigations and for pro-active work.	No further action.		
5. Take action in response to fraud and corruption.	Where this has been identified it has been investigated and reported to the police/action fraud.		On going	Internal Audit

Appendix 2: Fraud Response Plan



FRAUD RESPONSE PLAN

INTRODUCTION

1. The Council has a **zero tolerance** to all forms of fraud, corruption and theft. This means we will apply the toughest sanctions where fraud is proven – disciplinary and criminal.
2. This Fraud Response Plan is part of the **Anti-Fraud and Corruption Policy** and our aim is to reduce fraud and loss to an absolute minimum and keep it there.
3. You should follow this response plan if you are a staff member, councillor, partner, contractor or Worcestershire resident. We all have a responsibility to report any suspicion of fraud and to cooperate in any investigation, if necessary. If you work for the Council and fail to report your suspicions, you may be in breach of our Anti-Fraud and Corruption Policy and action may be taken against you or your organisation.
4. **Fraud** is a crime and involves a deception which is deliberate and intended to provide a direct or indirect personal gain – for example: false expenses, exaggerated pay claims, altering accounting records, bogus invoices, forged cheques, fixing tender results, contract irregularities etc.
5. **Corruption** is the deliberate misuse of your position for direct or indirect personal gain such as: offering, giving, requesting or accepting a bribe or reward which influences your actions or someone else's.
6. **Theft** is where someone steals cash or other property belonging to someone else with no intention of returning it.
7. This guidance only tells you what to do if you suspect fraud - for other concerns you should refer to: the Anti-fraud and Corruption Strategy or you can report fraud suspicions using the Council's Whistleblowing Policy.

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

8. Immediately report your suspicions to:
- your line manager (or more senior manager if you think they may be involved)
 - the Internal Audit department – Garry Rollason, Chief Risk and Assurance Manager.
 - the Council's Confidential Fraud Reporting Line on 01905 766570.

9. Top Tips

Don't	Do
Delay – report the matter quickly.	Record your suspicions – write down what you have found, seen and heard.
Approach or accuse individuals directly – you may alert them and evidence may be destroyed.	Keep any evidence you have in a safe place.
Tell anybody else – you don't know who may be involved.	Tell us who you are – we will want to talk to you as you may know more than you realise.
Investigate yourself – you may spoil the evidence and prevent a criminal prosecution.	Keep calm.

SAFEGUARDS

10. **Harassment, bullying or victimisation** – if you have raised your concerns in good faith we will take action to prevent you from reprisal.
11. **Confidentiality** – if you feel it is necessary we will try to protect your identity – this will not be possible if the investigation leads to criminal action.
12. **Anonymous referrals** – we do not encourage these as it affects our ability to investigate, but we will always look into any case of suspected fraud.
13. **Malicious referrals** – if we find that your referral is malicious or has been made for personal gain, we will take action against you under the Council's Disciplinary Policy or relevant agreement if you work for one of our partners.

INVESTIGATION

14. All suspected fraud must be referred to Internal Audit.
15. Internal Audit will assess the initial information and decide how to proceed, in conjunction with the Chief Financial Officer.

16. Following best practice guidelines, Internal Audit will investigate most cases of suspected fraud – management may investigate low level fraud involving an employee after consultation with Internal Audit.

POTENTIAL OUTCOMES

17. **Criminal Prosecution** – the Chief Risk and Assurance Manager, on advice from Legal Services where necessary, will authorise the referral to the police for investigation.
18. **Disciplinary Action** – at the end of the investigation Internal Audit will produce an outcome report. If this involves an employee and fraud is proven, the likely outcome will be dismissal. If fraud is not proven there may still be matters which need to be considered under the Council's disciplinary procedures.
19. **Recovery through Civil or Criminal Proceedings** – we will seek to recover all losses subject to legal advice and where it is cost effective to do so. We will recover any loss caused by an employee through salary, pension or insurance.
20. **Weaknesses in the System of Controls** – we will produce an Action Plan to address any system or management weaknesses and to reduce the risk of fraud and error in the future.

AUDIT AND GOVERNANCE COMMITTEE
18 MARCH 2016**INTERNAL AUDIT PROGRESS REPORT 1 NOVEMBER TO**
31 JANUARY 2016

Recommendation

1. **The Chief Financial Officer recommends that the Internal Audit Progress Report attached as an Appendix is noted.**

Background

2. The attached progress report summarises Internal Audit work undertaken 1 November 2015 to 31 January 2016 for consideration by the Committee.

Contact PointsCounty Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix - Internal Audit Progress Report 1 November to 31 January 2016.

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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February 2016

**Internal Audit Progress Report
1 November to 31 January 2016**



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1. Introduction

- 1.1. The Audit and Governance Committee has responsibility to review the adequacy of the County Council's internal control and risk management arrangements. Internal Audit is an independent assurance function which provides an objective opinion on the effectiveness of the control environment comprising risk management, control and governance processes.
- 1.2. This report outlines the work of the internal audit service during the period 1 November 2015 to 31 January 2016 compared to the 2015/16 Internal Audit Plan which was approved by the Audit and Governance Committee at its meeting on 26 June 2015.

2. Internal audit work completed 1 November to 31 January 2016

- 2.1. Since the last report to the Committee, work has progressed on the 2015/16 Plan. All the work completed has been reported to management to ensure that individual recommendations are properly considered.
- 2.2. The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.
- 2.3. Where audits have been given a limited opinion this is an indication that the Council does not have sound processes in place to manage risk and are therefore the audits which the Committee may wish to focus on. There are no audits in this category issued during this period.
- 2.4. The assurance opinion given is at the time of the report being issued but before full implementation of the agreed management action plan. Where a report has been finalised management will have accepted the recommendations and agreed an action plan with timescales for implementation. It is essential that audit recommendations are implemented by management within the agreed timescales. All recommendations are therefore routinely followed up with senior management twice a year to obtain assurance that recommendations have been implemented. The next follow up of recommendations is due to be undertaken in April 2016 and the status of the high recommendations will be reported on to the next meeting of the Committee in June 2016.
- 2.5. Following audits a "Post Audit Questionnaire" has been issued to relevant managers asking for their views on the delivery of the audit. There are a range of questions covering audit approach, reporting and an overall assessment. It is pleasing that the results to date are excellent with an average score of 4.86 (out of a maximum of 5). In addition a number of very positive comments regarding Internal Audit work have been received.
- 2.6. Feedback from senior management would also suggest that the quality of output is high and continues to improve.
- 2.7. Work is in progress on the 2015/16 plan. A detailed statement showing actual audit activity for the year is shown in Appendix 1 and non-audit work is covered in section 3 below.
- 2.8. Ten audits have been completed (four relating to 2014/15), management responses received and final reports issued. A breakdown of these final reports can be found in Appendix 2, which summarises the risk ratings associated with

each recommendation along with an overall opinion. Further information is provided in the individual reports. A list of those reports which will be considered for publication is included in Appendix 3. Published reports can be accessed by the following link:

http://www.worcestershire.gov.uk/info/20003/council_democracy_and_councillor_information/1076/internal_audit

- 2.9. Progress on the 2015/16 plan has been affected by the work needed on investigations, extra time required on the consultants audit which was reported to the last meeting and also by the amount of time required to complete 2014/15 audits which were in progress at the time of the transfer of the audit service to Warwickshire. Induction and IT issues arising from the transfer were under estimated and more recently the long term sickness of an auditor has affected progress. A significant number of audits are in progress and we are working hard to finalise these but some audits will slip into 2016/17 but it is not anticipated that this will impact on the ability to provide an overall opinion.

3. Other significant work

- 3.1. Internal Audit has also carried out work in a number of other areas during the period ending 31 January 2016 and this is set out below.

Grant claims

- 3.2. A total of 2 further grant claims have been reviewed to ensure accuracy and compliance with relevant grant conditions:
- Bus Services Operators Grant
 - Regional Growth Fund

These were no issues arising from this work.

Advice

- 3.3. The Council will face major changes in systems and procedures over the coming years and we are able to provide advice on the control implications of these changes.
- 3.4. Internal Audit meets regularly with Directors and other senior staff to identify areas where such advice or input is required. This is an important part of Internal Audit's work to ensure that appropriate controls are considered at an early stage. This work reduces the issues that will be raised in future audits, contributes to a stronger control environment and allows the audit team to keep up to date with current and future challenges facing the directorates. We wish to expand this pro-active work as it is a particularly effective use of our resources.
- 3.5. Between 1 November and 31 January 2016, Internal Audit has advised on a number of areas including:
- **Superfast broadband project** - Internal Audit has continued to support this project since the previous update to the Committee, providing advice regarding the process for checking the information provided by the contractor so that invoices can be paid
 - **Risk Management** - Internal Audit continues to attend regular meetings of the Corporate Risk Management Group and provides advice and guidance as required

- **Information Governance** - Internal Audit continues to attend regular meetings of the Corporate Information Governance Group and provides advice and guidance as required
- **Commissioning** - advice was provided on the internal audit arrangements relating to the Liberata transactional HR and Finance contract
- **Children's Services Finance** – advice and support regard to a School paying income into a private school fund bank account that is due to the delegated budget
- **Children's Services Finance** – advice given regarding the risks associated with a maintained school looking to contract much of its financial management arrangements to a third party.

Special Investigations

- 3.6. There have been no new allegations of irregularities reported to internal audit since the last Audit and Governance Committee. Of those reported to the last Committee further work has been carried out on irregularities at a Day Centre and a library; an allegation of inappropriate claiming of time worked and falsification of records. The allegation of inappropriate claiming of time worked has progressed to disciplinary stage. The falsification of records case has now been passed over to the police for further action. The Day Centre case was referred to the police who have made an arrest and the individual has been bailed. “Lessons learnt” reports will be prepared in due course and key issues arising will be provided to the Audit and Governance Committee when investigations are concluded.

4. Appendix 1: Summary of progress against the agreed Audit Plan 2015/16

Area/system	Date final report issued	Status/assurance level given
OP1 – Fundamental assurance		
Core Financial Systems:		
Payroll		Terms of Reference agreed. Work in progress.
Pensions Administration		A follow up of the previous audit recommendations is planned. Terms of Reference issued and awaiting agreement.
Pensions Investments		Initial meetings held to inform the Terms of Reference. Terms of Reference issued and awaiting agreement.
Pensions Governance		Initial meetings held to inform the Terms of Reference. Terms of Reference issued and awaiting agreement.
Capital Forecasting		Terms of Reference agreed. Work in progress.
Minimum Revenue Provision		Completed. To be reported with MTFP.

Area/system	Date final report issued	Status/assurance level given
Medium Term Financial Plan (MTFP)		Terms of Reference agreed. Work in progress.
Controls around Purchase Order/Payments		Terms of Reference issued and awaiting agreement.
Self Service for Finance		The implementation of Self Service has slipped from the original planned date therefore it is proposed to defer the audit until 2016/17 at the request of the Chief Financial Officer.
Adherence to Capital Accounting Practice		Advisory work completed.
Feeder systems	November 2015	Final Report issued. Substantial opinion.
Grant Assurance <ul style="list-style-type: none"> • Community Capacity Grant • Department of Health Transforming Care Fund • Care Bill implementation grant for 2014/15 		<ul style="list-style-type: none"> • Complete • Complete. • Complete
OP2 – Cross cutting audits		
Directorate Risks		One school audit has been undertaken and a draft report produced.
Intelligence led pro-active fraud investigations		Ongoing. Currently at the planning stage of using Fiscal software to analyse key financial data. Work is also underway to develop a counter fraud / investigations protocol.

Area/system	Date final report issued	Status/assurance level given
IT Security audit		Terms of Reference agreed. Work in progress by IT specialists.
IT Asset Configuration audit		Terms of Reference agreed. Work in progress by IT specialists.
IT Policy Framework		Terms of Reference agreed. Work in progress by IT specialists.
Use of External Consultants	November 2015	Final report issued and appeared as a separate agenda item at the last committee. Limited Opinion.
Performance Management		Terms of Reference issued and awaiting agreement.
Commissioning		Terms of Reference agreed. Work In progress. One report to be produced covering both topics.
Procurement		
Job evaluation/ Grading of posts		Terms of Reference issued and awaiting agreement.
Place Partnership		Terms of Reference issued. Advisory work planned.
Legal – Looked after children		Discussions indicate that the audit is unlikely to add value as much work has been undertaken in this area and therefore it is proposed to delete this audit from the plan.
Transfer of Assets		Terms of Reference agreed. Work in progress.
Business ownership of systems		Terms of Reference agreed. Work in progress.

Area/system	Date final report issued	Status/assurance level given
Training and Development		As the service is currently being reviewed and restructured that it would be more beneficial to postpone any audit work until after this is complete. This has been agreed by the Director of Commercial and Change and the Chief Financial Officer.
OP3 - Open for Business		
Local Enterprise Projects		Terms of Reference agreed. Work in progress.
Improvement & Efficiency West Midlands (IEWM)		Terms of Reference issued and awaiting agreement.
OP4 – Children and Families		
SEN(D) Transport		Terms of Reference agreed. Work in progress.
Local Offer 2014 Children's Families Act		Advisory work in progress.
Child Academic Improvements in Care Homes	January 2016	Final Report issued. Substantial.
Foster Payments		Terms of Reference agreed. Work in progress.
Foster Carers - the Foster Carer Journey		Terms of Reference issued and awaiting agreement.
School Themed Audits	December 2015.	Final report issued on budgetary control.
	January 2015.	Final report issued on staffing.

Area/system	Date final report issued	Status/assurance level given
Stronger Families programme		<p>Advice given prior to the initial claim being submitted under phase 2 of the scheme including a sample check to confirm appropriate supporting evidence was held for each of the families for whom a payment by results payment was being claimed.</p> <p>Following discussions with the Head of Service about priorities this audit will be replaced with a review of Direct Payments – Children with Disabilities.</p>
Early Help Commissioning		Terms of Reference agreed. Advisory work in Progress.
Safeguarding		Terms of Reference issued for approval. Work in Progress.
Business Support Service		
OP5 – The Environment		
Highways Customer and Community		Terms of Reference agreed. Work in Progress.
Transport		<p>Discussions with the Head of Community and Environment established that the audit is not now considered required. Confirmation has been received from the Director of BEC for deletion from the plan.</p>
Flood Management		Draft report issued. Management responses received.

Area/system	Date final report issued	Status/assurance level given
Evesham Abbey Bridge		Discussions with the Director of E&I indicate that specialists in forensic delays have been appointed. It was reported to the December Audit and Governance Committee that the audit should be deferred until 2016/17. Further discussions with the Director of E&I indicate that the audit should be deleted from the plan.
Highways Maintenance Service Contract		Terms of Reference issued. Work in Progress.
Malvern Link and Worcester Foregate Street Enhancement contract		Discussions underway to agree timing of the audit. Alternative audit of Bromsgrove rail contract may be required.
OP6 – Health and Wellbeing		
Direct Payments		Two audits planned. Direct Payments - Children. Terms of Reference agreed. Work in progress. Direct Payments – Adults. Terms of Reference drafted.
E Market Place		Advisory worked planned during the design stage prior to development works being completed.
Commissioning		Terms of Reference agreed. Work in Progress.
Adult and Social Care Annual Review Process		Advisory work planned.
Deferred Payments Scheme		Terms of Reference issued for approval.
Post Implementation - Care Act		Terms of Reference issued and awaiting agreement.

5. Appendix 2: Summary of Recommendations (final reports only)

Assignment	Fundamental	Significant	Merits Attention	Total	Overall opinion
Work relating to 2014/15					
Registrars	2	8	0	10	Substantial
Community Safety	N/A	N/A	N/A	N/A	RAG rating
Growing Places Fund	0	1	0	1	Substantial
Archaeology	0	3	3	6	Substantial
Work Relating to 2015/16					
School Fund Income Investigation	7	3	1	11	N/A
Feeder Systems	0	2	0	2	Substantial
Use of External Consultants	6	13	1	20	Limited
Child Academic Improvements in Residential Homes	0	3	7	10	Substantial
School Themed Audit - Budgetary Control	0	5	1	6	Substantial
School Themed Audit - Staffing	0	1	0	1	Substantial
Total for period ending 31 January 2016	15	39	13	67	

6. Appendix 3: List of Internal Audits to be considered for Publication

6.1. The following reports will be published following consideration of whether they would require redaction prior to publishing. It should be noted to date that only Internal Audit reports where an opinion has been given have been published.

- Child Academic Improvements in Residential Homes
- School Themed Audit – Budgetary Control
- School Themed Audit - Staffing.

6.2 Published reports can be accessed by the following link:
http://www.worcestershire.gov.uk/info/20003/council_democracy_and_councillor_information/1076/internal_audit

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**AUDIT AND GOVERNANCE COMMITTEE
18 MARCH 2016****EXTERNAL AUDIT PLAN – WORCESTERSHIRE COUNTY
COUNCIL**

Recommendation

1. **The Committee is asked to note the content of the Audit Plan for Worcestershire County Council as set out as an Appendix.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit plan for the Council which is attached as an appendix
3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

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Specific Contact Points for this report

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Supporting Information

- Appendix - The Audit Plan for Worcestershire County Council

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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The Audit Plan for Worcestershire County Council

Year ending 31 March 2016

18 March 2016

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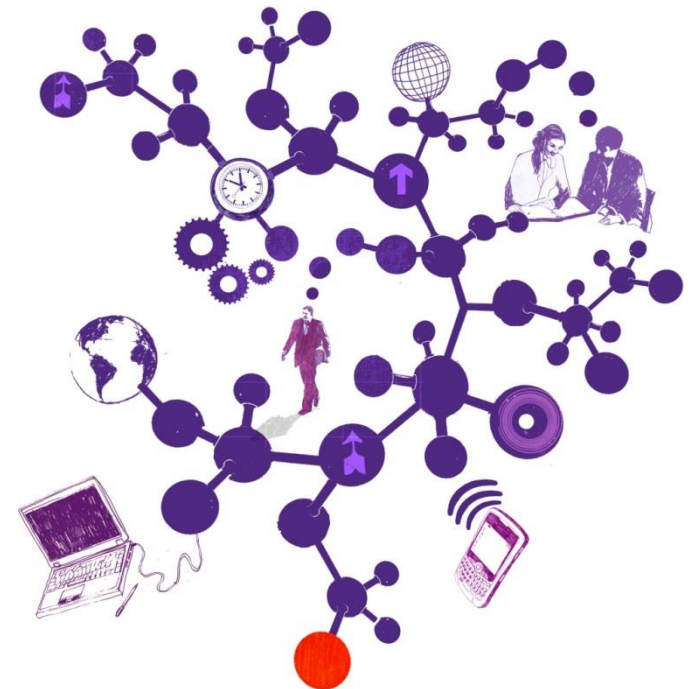
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Worcestershire County Council
County Hall
Spetchley Road
Worcester
WR5 2NP

18 March 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Worcestershire County Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Worcestershire County Council, the Audit and Governance Committee) an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Yours sincerely

John Gregory
Engagement Lead

Chartered Accountants

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years, and this has had a disproportionate impact on counties in 2016/17.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.

3. Children's services budget

- As at October 2015 the forecast overspend in children's services is projected to be £5.8m. This is due to costs of placing children in external placements. This area of expenditure continues to cause significant financial pressures but the Council has a strategy in place to address this through 'fixing the front door'.

4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.

5. Closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- The legislation now provides for a common period for the exercise of public rights across all Councils - for 2015/2016 this is 1st – 14th July.

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Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider as part of our VFM work the impact of any changes on the service and the financial pressures.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements.

- We aim to complete all substantive work in our audit of your financial statements by 30 June 2016
- We aim to sign the Statement of Account opinion by 15th July 2016, which is the earliest possible date given the timing of the common period for the exercise of public rights.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Accounting Transactions

- The Council is proposing to revise its method of calculation for the Minimum Revenue Provision to better match to asset lives.
- The Council is amending the accounting entries for the Waste PFI.
- The Council has various methods of service delivery through various other organisations. As a result it has considered whether group arrangements exist and group accounts are required.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.

Our response

- We will review the revised Minimum Revenue Provision to confirm that the revised methodology is appropriate.
- We will review the accounting entries in respect of the Energy for Waste PFI.
- We will review the Council's assessment of whether it has group arrangements with any external organisations.

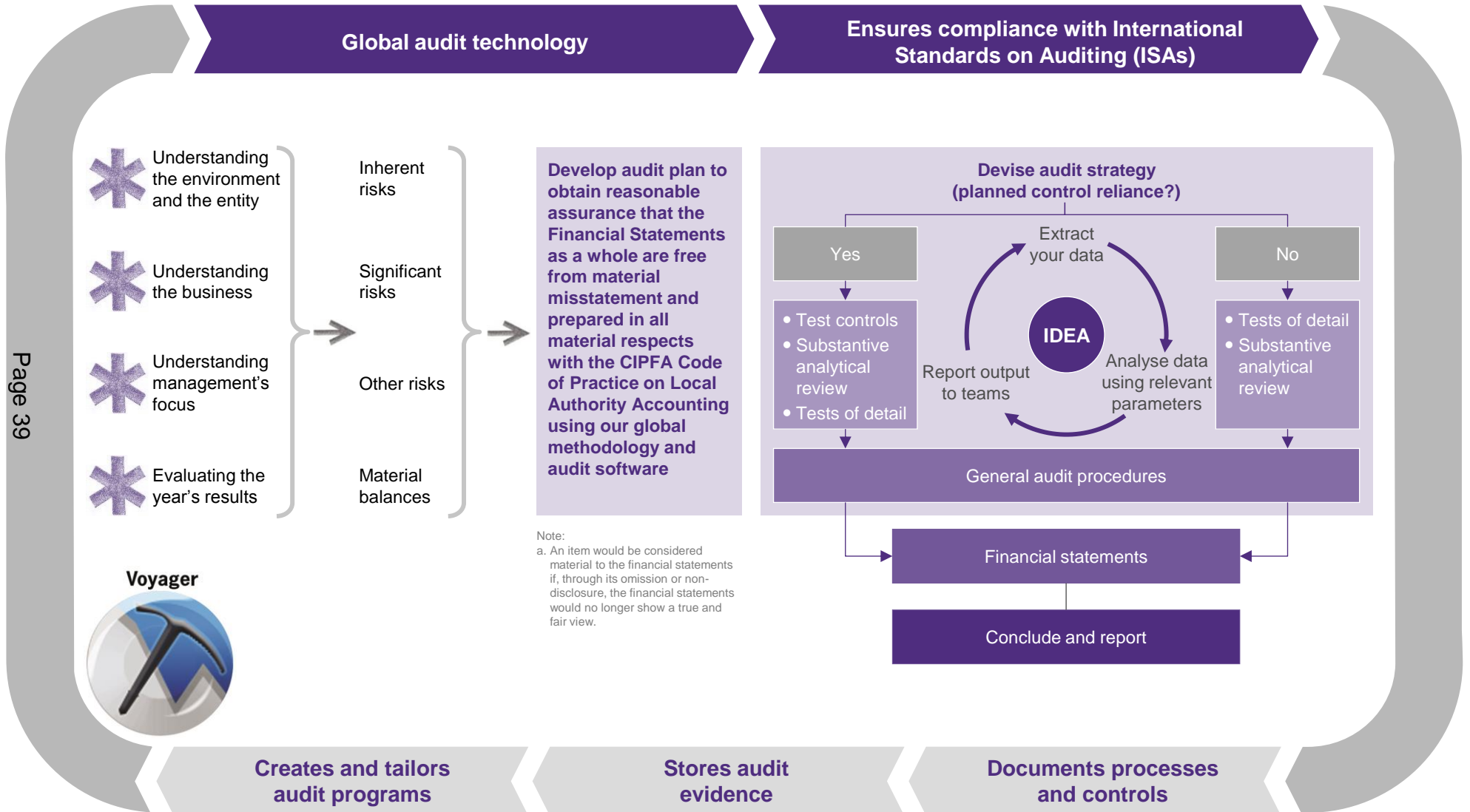
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £15.516m (being 2% of gross revenue expenditure as per the Budget Book). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £775,800.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are particular account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could have an impact on the user of the accounts – in the case of local authorities, this may be due to political sensitivity or other factors.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

Significant risks identified

"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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Worcestershire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management. <p>Further work planned:</p> <ul style="list-style-type: none"> • Further review of accounting estimates, judgments and decisions made by management. • Testing of journal entries. • Review of unusual significant transactions.

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Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment Page 42	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	Work planned: <ul style="list-style-type: none"> • Review of the competence, expertise and objectivity of any management experts used. • Review of management's processes and assumptions for the calculation of the estimate. • Review of the instructions issued to valuation experts and the scope of their work. • Discussion with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • Gaining assurance over the controls over information provided to the actuary.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses Page 44	Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period	Work completed to date: <ul style="list-style-type: none"> We have updated our understanding and discussed the cycle with relevant personnel from the finance team. We have conducted a walkthrough of the key controls for this system. Further work planned: <ul style="list-style-type: none"> We will search for unrecorded liabilities by reviewing payments after the year end. We will review the Council's accruals process and test accordingly (including goods receipted).
Employee remuneration	Employee remuneration and benefit obligations and expenses understated.	Work completed to date: <ul style="list-style-type: none"> We have updated our understanding and discussed the cycle with relevant personnel from the finance team. We have conducted a walkthrough of the key controls for this system. We have discussed any potential data protection issues with officers and agreed on the arrangements in place to enable appropriate audit access and evidence to be retained. Further work planned: <ul style="list-style-type: none"> We will review the reconciliation of the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger. We will complete a trend analysis of monthly payroll data. We will test amounts paid to individual employees on a sample basis.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section. These balances will include:

- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note

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Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors. We will issue the closure certificate when the Whole of Government Accounts has been signed. The exact timescale for this work is yet to be determined as we are currently awaiting updated clarified auditor guidance.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted and the Care Quality Commission.
- illustrative significant risks identified and communicated by the NAO.

We have identified the following (overleaf) significant risks which we are required to communicate to you. Our definition of significant risks, based on the definition in the NAO's Code of Audit Practice, is:

The Code defines 'significant' as follows: *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.* Note that classifying something as a risk at this stage does not mean that we are of the view that there is a particular business risk in that area – it may be that it is an area which falls within the criteria where we do not have sufficient information at present to reach a conclusion on the Council's arrangements, but that we will in due course be satisfied with the arrangements in place.

We have set out below the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Value for Money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks..

Significant risk	Link to sub-criteria	Work proposed to address the risk identified
<p>The Corporate Plan clearly set out the vision of the authority to become a 'Commissioning Authority'. The Council has progressed well against this vision, with a number of services now provided by others, either through contracts with the private sector, or more recently through the setting up of a local authority trading company.</p>	<p>This links to the Council's arrangements for Commissioning services effectively to support the delivery of strategic priorities.</p>	<p>We will review the Council's current progress against its vision and understand the picture of Commissioning across the authority.</p>
<p>The Council identified savings of £23.8m as part of the 2015/16 budget setting, £12.6m of which would come from the Directorate of Adult Services and Health. Like many other County Councils, the draft financial settlement for 2016/17 was worse than expected, and as a result further significant savings will need to be made to balance the budget.</p>	<p>This links to the Council's arrangements for ensuring it plans finances effectively to support its strategic functions, and it's arrangements for ensuring informed decision making.</p>	<p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>
<p>As at October 2015 the forecast overspend in children's services is projected to be £5.8m. This is due to costs of placing children in external placements. This area of expenditure continues to cause significant financial pressures on the overall budget.</p>	<p>This links to the Council's arrangements for ensuring it plans finances effectively to support its strategic functions.</p>	<p>We will review the Council's arrangements for managing the overspend, and the plans in place to ensure that this service is sustainable.</p>
<p>The Health economy within Worcestershire continues to face difficulties. How the Council works with Health partners will be key to the achievement of its own strategic objectives.</p>	<p>This links to the Council's arrangements for working with third parties effectively to deliver strategic priorities.</p>	<p>We will review the Council's arrangements for working with its health partners.</p>

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements

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Results of interim audit work (continued)

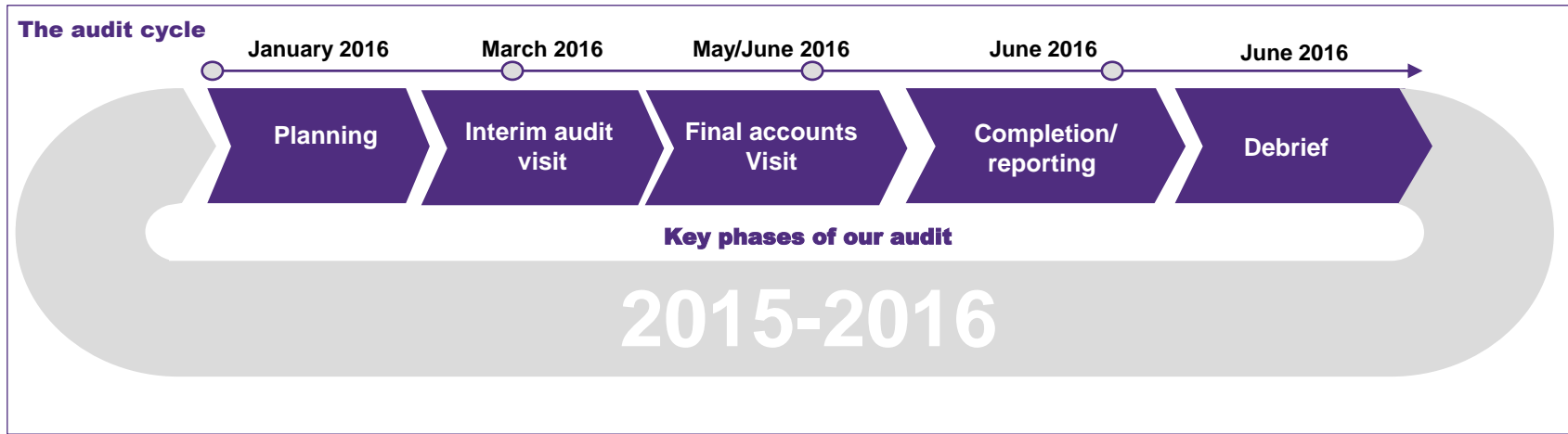
	Work performed	Conclusion
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>In all significant respects IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements, however some deficiencies have been identified, and we are currently agreeing an action plan with officers in respect of these deficiencies. The final agreed action plan will be reported to members as part of the audit findings report in June.</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

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Results of interim audit work (continued)

	Work performed	Conclusion
<p>Early substantive testing</p>	<ul style="list-style-type: none"> • We have reviewed the revised Minimum Revenue Provision to determine whether the revised methodology is appropriate. • We have reviewed the decision of the partners to classify Place Partnership as a Joint Operation. • We have discussed the principal of the PFI MRP with officers • We have had initial discussions with the Council on the accounting treatment of the Better Care Fund. We have raised some further points of consideration for officers to address. In addition we have invited key officers to a seminar on accounting for the Better Care Fund on the 7th March which will focus on the accounting and governance arrangements required. • We have undertaken a partial review of the skeleton accounts prepared to date. We have identified some areas where further work is required. 	<ul style="list-style-type: none"> • We are satisfied that the revised provision for pre-2008 is prudent • We agree that Place Partnership should be classified as a joint operation. • We have agreed with officers the additional information required on the effect of not double counting the MRP for PFI. • Better Care Fund: we will follow up the queries raised during our planning work with the Council in March on the accounting treatment and the consistency with other parties to the Section 75 agreement. • Skeleton Accounts: We will review the following areas as part of our March visit, the termination / exit packages note, the related parties note and the evidence to support the change in the value of the transactions to be accrued.

Key dates



Date	Activity
January 2016	Planning
March 2016	Interim site visit
18 March 2016	Presentation of audit plan to Audit and Governance Committee
19 May – 17 th June 2016	Year end fieldwork
20 th June 2016	Audit findings clearance meeting with Chief Financial Officer
30 th June 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
15 th July 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	95,446
Total audit fees (excluding VAT)	95,446

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.

The scope of the audit, and the Council and its activities, have not changed significantly.

The Council will make available management and accounting staff to help us locate information and to provide explanations.

- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan, and to date none have been agreed. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

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Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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**AUDIT AND GOVERNANCE COMMITTEE
18 MARCH 2016****EXTERNAL AUDIT PLAN – WORCESTERSHIRE COUNTY
PENSION FUND**

Recommendation

1. **The Committee is asked to note the content of the Audit Plan for Worcestershire County Pension Fund as set out as an Appendix.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit plan for the Pension Fund which is attached as an appendix
3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

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Specific Contact Points for this report

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Supporting Information

- Appendix - The Audit Plan for Worcestershire County Pension Fund

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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The Audit Plan for Worcestershire County Pension Fund

Year ending 31 March 2016

March 2016

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Manager

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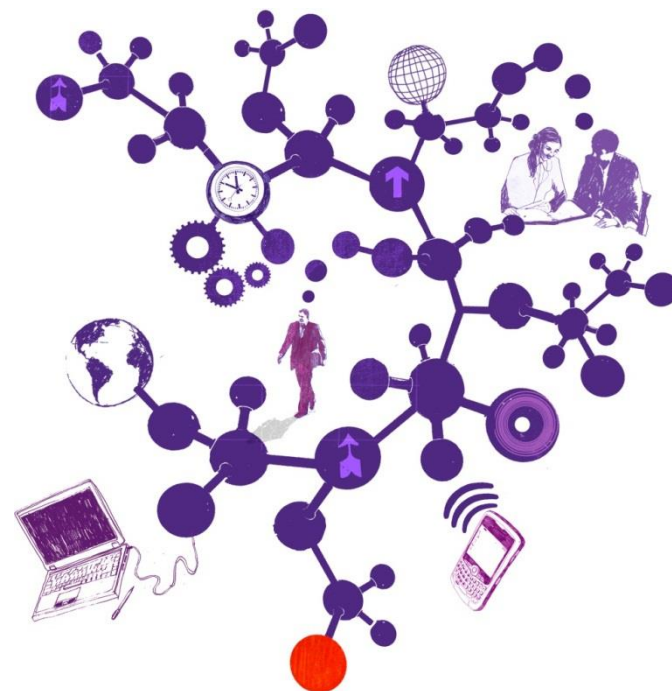
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Worcestershire County Pension Fund
County Hall
Spetchley Road
Worcester
WR5 2NP

March 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Worcestershire County Pension Fund for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Worcestershire County Pension Fund, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

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

Yours sincerely

John Gregory
Engagement Lead

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Chartered Accountants

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.

Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

4. Local Government Outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require funds to bring forward the approval of draft accounts and the audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

- We will continue to work with you to ensure that the audit process runs smoothly.
- We aim to complete all substantive work in our audit of your financial statements by June 2016 in line with your normal audit timings.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and lever payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

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2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016. However the Pension Fund needs to ensure on going compliance with the Code.

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.



Our response

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

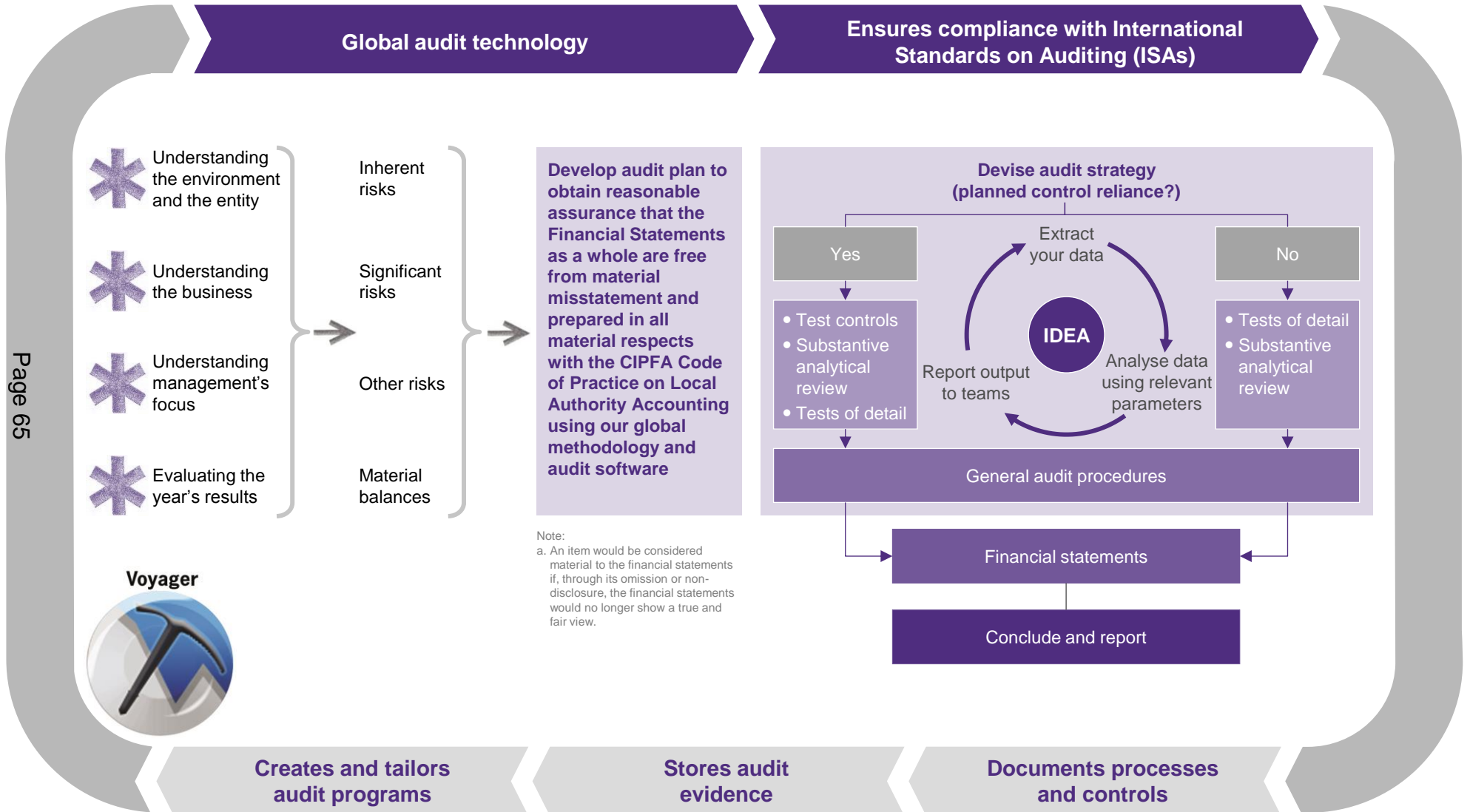
- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of its membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £19,873k (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £994k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k

Significant risks identified

"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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Worcestershire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Worcestershire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.
<p>Page 67</p> <p>Management over-ride of controls</p>	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries. The interim visit was designed to carry out testing of journal postings relating to the purchase and sale of investments and related transactions such as recognition of investment income, based on our understanding that these transactions are usually posted quarterly. As at the interim stage, due to staff training issues, none of these transactions had yet been posted therefore this element of our testing will now take place at the final accounts stage. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none"> • Based on discussions with fund financial reporting personnel, our approach will be as follows: for a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. However, as the relevant investment managers are new to the fund and reporting protocols are still unclear, we have requested that fund personnel contact the investment managers to discuss their valuation methods and feedback to us prior to our final accounts visit, in order that we are able to revise our approach if required. • Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Review the competence, expertise and objectivity of any management experts used.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>Work completed to date: Existing key controls have been walked through to confirm operational effectiveness.</p> <p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances , Complete a predictive analytical review for different types of investments
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>Work completed to date: Existing key controls have been walked through to confirm operational effectiveness.;</p> <p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances, We will test a sample of investment values to independent valuations.

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Other risks identified (continued)

Other risks	Description	Audit approach
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date: Existing key controls have been walked through to confirm operational effectiveness.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date: Existing key controls have been walked through to confirm operational effectiveness.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Test a sample of individual pensions in payment by reference to member files. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date: Existing key controls have been walked through to confirm operational effectiveness.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample testing of changes to member data made during the year to source documentation.

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Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Administering Authority and that internal audit work contributes to an effective internal control environment for the Fund.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the fund's financial statements

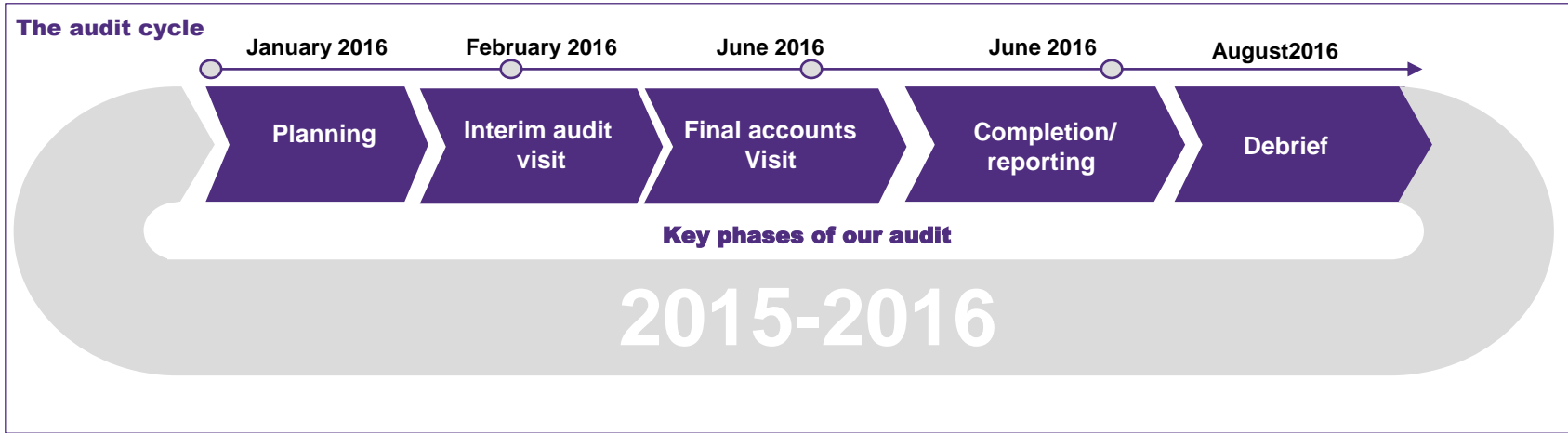
Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the Council's internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Pension Fund's financial statements. However some deficiencies have been identified, and we are currently agreeing an action plan with officers in respect of these deficiencies. The final agreed action plan will be reported to members as part of the audit findings report in June.</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Controls testing	<p>We performed testing of the operating effectiveness of key controls on those information systems where we had identified a reasonably possible risk of material misstatement to gain assurance about this and to reduce the amount of substantive testing performed on the financial statements. We tested:</p> <p>A sample size of 25 new fund members and 25 new pensioners to confirm that entry to the fund and application for receipt of benefits respectively had been appropriately authorised.</p>	<p>Our work identified that the key controls tested were operating effectively throughout 2014/15. In line with ISA requirements, we have walked through these controls to confirm that they are in place in the current period and as such are able to place reliance on the controls testing carried out in 2014/15 to reduce the amount of substantive testing on these areas as a result.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>We are satisfied that journal entries do not indicate the existence of fraud or error. We will complete testing of the final three months of the period at the final accounts stage.</p>
Early substantive testing	<p>We have carried out testing of accuracy of calculation of benefits paid and lump sums, contributions received and changes to member data recorded to month nine. No issues have been identified that we wish to highlight for your attention.</p>	<p>Satisfied that results of substantive testing carried out so far do not indicate the existence of fraud or error; we will complete testing of the final three months of the period at the final accounts stage.</p>

Key dates



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Date	Activity
January 2016	Planning
February 2016	Interim site visit
March 2016	Presentation of audit plan to Audit and Governance Committee
June 2016	Year end fieldwork
June 2016	Audit findings clearance meeting
June 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
July 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Pension Fund Scale Fee	24,963
Proposed fee variation – IAS 19 Assurances	1,193
Total audit fees (excluding VAT)	26,156

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

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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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

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Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund 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 fund 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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**AUDIT AND GOVERNANCE COMMITTEE
18 MARCH 2016****EXTERNAL AUDIT PLAN – INFORMING THE AUDIT RISK
ASSESSMENT FOR WORCESTERSHIRE COUNTY COUNCIL
AND PENSION FUND**

Recommendation

- 1. The Committee is asked to note the content of the External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund as set out as an Appendix.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund which is attached as an appendix.
3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

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Supporting Information

- Appendix - External Audit Report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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Informing the audit risk assessment for Worcestershire County Council and Pension Fund

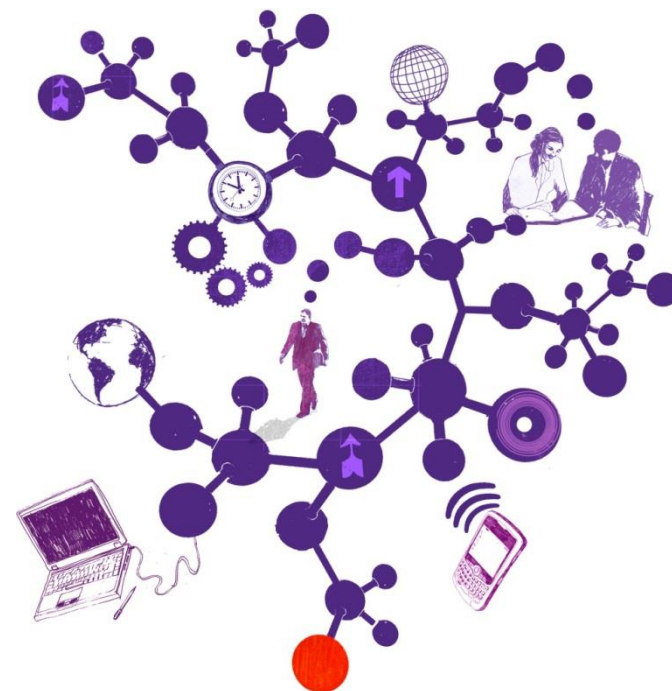
Year ended

31 March 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- Fraud,
- laws and regulations,
- going concern,
- accounting estimates, and
- related parties.

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud risk assessment

Question	Management response
<p>1. What is officers' assessment of the risk of material misstatement in the financial statements due to fraud? Is this consistent with the feedback from your risk management processes?</p>	<p>The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council clear and effective arrangements are in place to both prevent and detect fraud.</p>
<p>2. Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2015? If so how does the Audit and Governance Committee respond to these?</p>	<p>No material instances of fraud have been identified in 2015/16. From time to time internal audit are asked to undertake investigations into alleged fraudulent or inappropriate activity. Often there are recommendations made as a result of these investigations, however they rarely result in clear evidence of fraudulent activity. No significant cases have been identified that represent systematic fraudulent activity.</p>
<p>3. Do you suspect fraud may be occurring, either within the Council or within specific departments? Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>We do not expect material fraud is occurring within the Council. However, evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring at Worcestershire. In order to mitigate fraud occurring the Council has a number of processes in place. The Internal Audit plan incorporates consideration of potential fraud risks and how these are to be mitigated, for example through the reviews of the Council's key systems and the work it completes on the Council's Anti-Fraud processes to ensure that they are fit for purpose. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register.</p>

Fraud risk assessment (continued)

Question	Management response
<p>4. Are you satisfied that the overall control environment, including: the process for reviewing the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Yes.</p> <p>The Council's management have been asked to state in their Director Assurance Statements that they are not aware of any significant control failures occurring in 2015/16.</p> <p>In addition to segregation of duties, the Council has a number of other control processes in place to prevent, deter or detect fraud, including the use of exception reports to identify unusual transactions which could be fraudulent.</p>
<p>5. How do you encourage, and communicate to employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud?</p>	<p>A confidential fraud reporting hotline is available for concerns to be reported. To the end of December 2015 seven hundred and eighty six people have undertaken the Internal Fraud e-learning module. The Council's Whistleblowing and Anti-Fraud and Corruption Policies are available on the Intranet. In order to keep abreast with current developments, Internal Audit sends a representative to Midland Counties Chief Internal Auditor group and will be attending the Midlands Fraud Forum in February. CIPFA and Barclays Bank Seminars have also been attended as well as receiving regular updates from the Institute of Internal Auditors.</p>

Fraud risk assessment (continued)

Question	
<p>6. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are not any significantly high-risk posts identified.</p>
<p>7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The 2014/15 financial statement disclosure of related party transactions does not identify any potential fraud risk, and none is anticipated in the preparation work for the 2015/16 financial statements. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p>8. What arrangements are in place to report fraud issues to Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Internal Audit report to Audit & Governance Committee on a quarterly basis any fraud issues. It is also intended to produce an annual report on Counter fraud work. The Audit and Governance Committee may seek further assurance from Internal Audit or management regarding fraud and breaches of internal control.</p>
<p>9. Are you aware of any whistleblowing reports under the Bribery Act since 1 April 2015? If so how does the Audit and Governance Committee respond to these?</p>	<p>No</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The role of the Monitoring Officer is defined in the Constitution as "responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet."</p> <p>The Monitoring Officer is supported by a team of Legal and Democratic Services Officers who advise him of any matters of concern.</p> <p>The Monitoring Officer sees all reports to the Chief Officer Management Board and all reports to Members.</p> <p>All reports to Members are required to have a legal implications section and a risk section.</p> <p>The section 151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer (or representative) attends Audit and Governance Committee Meetings when legal issues arise and advises members on any areas of concern.</p>
<p>3. Have there been any instances of non-compliance with law and regulation since 1 April 2015 with and on-going impact on the 2015/16 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>
<p>5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Council has an internal Insurance Team, under the line management of the S151 Officer, to advise and monitor any litigation / claims. This is in addition to services undertaken by the internal Legal and Democratic services team. Any issues are brought to the attention of the Monitoring Officer and/or S151 Officer as they arise.</p>
<p>6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>No</p>

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has a report been received from management forming a view on going concern?	The Director of Resources, as s151 Officer, is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the annual Budget report to Cabinet and Council in February.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Medium Term Financial Strategy underpins the strategic, transformational and operational intentions for Worcestershire County Council and forms part of the corporate strategic planning process. The financial assumptions are therefore consistent with the Corporate Plan. Reports in year are consistent with the budget set.
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The financial plan considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement
4. Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations (continued)

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes</p>
<p>7. Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</p>	<p>Yes. The Council has a robust corporate planning process, including an annual corporate strategic planning event in September and a change management process involving fortnightly Future Fit Steering Group meetings, a monthly Future Fit Programme Board and weekly Star Chamber call ins to track particular successes or progress against the more difficult milestones. Directors and Cabinet Members are included in this process.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>Yes management is aware of this, however there are no events or conditions that cast doubt on going concern.</p>
<p>9. Are arrangements in place to report the going concern assessment to the Audit and Governance Committee? How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Council is an organisation which has many statutory responsibilities and functions and as such the financial statements are prepared on a going concern basis. Where any of the Council's functions are changing, these decisions are taken by Cabinet and where appropriate Full Council, matters of which are routinely considered by Audit and Governance Committee members.</p>

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Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Question

1. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?

Management response

Throughout each year, finance and legal services staff are involved in supporting any detailed partnerships or similar arrangements with other bodies. During the final accounts process, a particular challenge exercise to identify any and all matters in relation to related parties is undertaken. The results of this exercise is included in the financial statements.

Accounting estimates

Issue
<p>Matters in relation to accounting estimates</p> <p>Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.</p> <p>Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.</p> <p>Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:</p> <ul style="list-style-type: none"> • the estimate is reasonable; and • estimates have been calculated consistently with other accounting estimates within the financial statements. <p>We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.</p>

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Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No changes have arisen that could cause a change in significant accounting estimates. Management would be aware of any such circumstances through normal monthly Directorate Management Team finance reports.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
3. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Assumption methodologies are reviewed before the financial statements are prepared, and are detailed for transparency in the accounts publications.

Appendix A Accounting Estimates

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by a qualified valuer (RICS/CIB Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews.	There is a rolling program of valuations and the finance team issues a terms of engagement covering specific issues for the year	Yes, the valuer is a member of RICS	Valuations are made in-line with RICS guidance - reliance on expert	No
Estimated remaining useful lives of PPE	The following assets categories have general asset lives: <ul style="list-style-type: none"> • Buildings 10-99 years • Vehicles, Plant and machinery 3-10 years • Infrastructure 20 years 	Consistent asset lives applied to each asset category	Use a local RICS member for valuations	The method makes some generalisations. For example, buildings tend to have a useful life of up to 65 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> assets which are bought from a third party are depreciated for a full year in the year of purchase. All other assets created as a result of capital expenditure during the year are depreciated for a full year where appropriate. Assets under construction, being capital works in progress where the uncompleted asset does not have a material benefit to the County Council, are not depreciated. 	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is an indication that an asset may be impaired Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and , here this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired	Use the internal local RICS member for valuations.	Valuations are made inline with RICS guidance – reliance on expert	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants	Take advice from professionals	Yes	Take advice from treasury management professionals	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead Allocation	The finance team apportion central support costs to services based on fixed bases.	All support service cost centres are allocated according to the allocation basis.	No	Apportionment bases are reviewed each year to ensure they are equitable.	No.
Provisions for liabilities	<p>Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.</p> <p>Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Council becomes aware of the obligation	No	Estimated settlements are reviewed at the end of each financial year. The insurance provision is periodically reviewed by the council's insurance broker	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals Page 100	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Procedures for identifying accruals are included in the closedown instructions	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI schemes and similar contracts	<p>PFI and similar contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.</p> <p>The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.</p>	<p>The models for the PFI contracts are used to produce the accounts.</p> <p>The internal valuer is used for valuations</p>	<p>Use of model for calculating PFI payment elements</p> <p>Use a RICS Member for valuations</p>	<p>Valuations are made in-line with RICS guidance</p> <p>- reliance on expert.</p>	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	S151 officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of Services notify the S151 Officer	This would be considered on individual circumstances	This would be considered on individual circumstances	N/A
Defined benefit pension amounts and disclosures	Non-teaching staff are members of the Local Government Pensions Scheme, administered by Worcestershire County Council.	Rely on the calculations made by the actuary	The actuary of the pensions scheme	Reliance on the expertise of the actuaries of the pension scheme	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Actuarial Gains/Losses	The actuarial gains and losses figures are calculated by the actuarial experts. These figures are based on making % adjustments to the closing values of assets/liabilities	For the LGPS the Authority responds to queries raised admitted bodies of the pension fund.	The Authority are provided with an actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No



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AUDIT AND GOVERNANCE COMMITTEE 18 MARCH 2016

WORK PROGRAMME

Recommendation

- 1. The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

Work Programme

30 June 2016

Annual Statutory Financial Statements for the year ending 31 March 2016
Annual Governance Statement
Internal Audit and Delegated Service Annual Report 2015/16
Internal Audit Risk Assessment and Plan 2016/17
Corporate Risk Report

9 September 2016

Internal Audit Progress Report 2016/17

9 December 2016

Internal Audit Progress Report 2016/17
External Audit Letter 2015/16
Corporate Risk Report

March 2017

Internal Audit Progress Report 2016/17
External Audit Plan 2016/17
External Auditor's Report
Use of Consultants – Audit Report
Counter Fraud Report

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) the following are the background papers relating to the subject matter of this report:

Agenda and Minutes of this Committee from December 2005 onwards