

Agenda

Audit and Governance Committee

Friday, 9 December 2016, 10.00 am
County Hall, Worcester

Notes:

This document can be provided in alternative formats such as Large Print, an audio recording or Braille; it can also be emailed as a Microsoft Word attachment. Please contact Democratic Services on telephone number 01905 846621 or by emailing democraticservices@worcestershire.gov.uk

If you can not understand the contents of this document and do not have access to anyone who can translate it for you, please contact 01905 765765 for help.

বাংলা। আপনি যদি এই দলিলের বিষয়বস্তু বুঝতে না পারেন এবং আপনার জন্য অনুবাদ করার মত পরিচিত কেউ না থাকলে, অনুগ্রহ করে সাহায্যের জন্য 01905 765765 নম্বরে যোগাযোগ করুন। (Bengali)

廣東話。如果您對本文檔內容有任何不解之處並且沒有人能夠對此問題做出解釋，請撥打 01905 765765 尋求幫助。 (Cantonese)

普通话。如果您对本文件内容有任何不解之处并且没有人能够对此问题做出解释，请拨打 01905 765765 寻求帮助。 (Mandarin)

Polski jeżeli nie rozumieją Państwo treści tego dokumentu i nie znają nikogo, kto mógłby go dla Państwa przetłumaczyć, proszę zadzwonić pod numer 01905 765765 w celu uzyskania pomocy. (Polish)

Português. Se não conseguir compreender o conteúdo deste documento e não conhecer ninguém que lho possa traduzir, contacte o 01905 765765 para obter assistência. (Portuguese)

Español. Si no comprende el contenido de este documento ni conoce a nadie que pueda traducírselo, puede solicitar ayuda llamando al teléfono 01905 765765. (Spanish)

Türkçe. Bu dokümanın içeriğini anlayamazsanız veya dokümanı sizin için tercüme edebilecek birisine ulaşamıyorsanız, lütfen yardım için 01905 765765 numaralı telefonu arayınız. (Turkish)

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

کوردی سۆزانی. ننگر نتوانی تیگی له نارمژکی نم بێلگیه و دستت به ههچ کس ناگات که و ههنگه پتوه بو، تکلیه تملظون بکه بۆ ژماره 01905 765765 و داوای پرتوینی بکه. (Kurdish)

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

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, 9 December 2016, 10.00 am, County Hall, Worcester

Councillors: Mr N Desmond (Chairman), Mrs S Askin, Mr S J M Clee,
Mr L C R Mallett (Vice Chairman), Mr R J Sutton and Mr P A Tuthill and
vacancy

Agenda

Item No	Subject	Page No
1	Apologies and Named Substitutes	
2	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 8 December 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 21 July 2016. (previously circulated – pink pages)	
5	Corporate Risk Report	1 - 14
6	Arrangements for the appointment of the County Council's External Auditor	15 - 20
7	Annual Audit Letter 2015/16	21 - 40
8	Internal Audit Progress Report 1 April to 30 October 2016	41 - 52
9	Work programme	53 - 54

Agenda produced and published by Simon Mallinson, Head of Legal and Democratic Services, County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda, contact Simon Lewis, Committee Officer. Telephone Worcester (01905) (846621)
email: slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Tuesday, 29 November 2016

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

9 DECEMBER 2016

CORPORATE RISK REPORT

Recommendation

- 1. The Audit and Governance Committee is requested to note the latest refresh of the Corporate Risk Register (Appendix 1 and 2), including the red risks identified and mitigating actions.**

Background

2. The Corporate Risk Register provides a mechanism for collating and reporting strategic risks that could affect the delivery of corporate objectives. Each risk listed on the Corporate Risk Register is monitored by Directorates and reported through the corporate process to provide assurance on the adequacy of arrangements to mitigate the risks.

3. Appendix 1 provides an overview of the Corporate Risk Register for Quarter Two 2016/17 as reported to Cabinet, including the status of individual risks. Two risks are rated as 'red':

- failure to maintain business as usual / appropriate levels of service at the same time as transformation
- demographic changes lead to changed demand for services.

Detail about the actions to address these risks is contained in Appendix 1.

4. The Committee has previously asked for more detail in relation to the rating of the individual risks. Appendix 2 provides a cut-down version of the Corporate Risk Register that shows the ratings for individual risks with no intervention, and with the mitigations currently in place. It also shows ratings at Directorate level. The pages at the front provide a key to the scoring process.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Tony Leak, Management Information and Analytics Manager

01905 853543

tleak@worcestershire.gov.uk

Supporting Information

- Appendix 1 – Corporate Risk Update
- Appendix 2 - Corporate Risk Register summary

Background Papers

In the opinion of the proper officer (in this case the Management Information and Analytics Manager) the following are the background papers relating to the subject matter of this report:

WCC Corporate Risk Register

Overview of Risk Status:

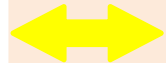
- One risk in the Corporate Risk Register has increased to 'red' since April 2016 - "Failure to maintain business as usual / appropriate levels of service at the same time as transformation". This reflects difficulties in recruitment which are delaying the restructure of adult social care services in the south of the county. A dedicated social work recruitment team is being established.
- One risk continues to be rated as red - "demographic changes lead to changed demand for services". There are significant pressures on Council services because of demographic factors such as the ageing population. Demand Management (e.g. prevention services) has been agreed as a major area of focus for the Council and a number of strategies are being put in place.

CORPORATE RISK PROFILE

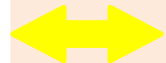
A Corporate Risk is a risk that has an impact across all areas of the Council such that it could prevent the Council delivering its corporate priorities. There are currently ten Corporate Risks - eight are RAG-rated as amber and two are RAG-rated as red.



Corporate Risk 1: Failure to maintain business as usual / appropriate levels of service at the same time as transformation



Corporate Risk 2: Failure to deliver financial savings identified in Medium Term Financial Plan



Corporate Risk 3: Failure to deliver a major project leading to increased costs, reputational damage to the Council and/or failure to realise savings



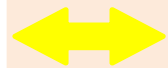
Corporate Risk 4: Serious harm or death due to a failure on the part of the Council



Corporate Risk 5: Failure to comply with legislation and statutory duties

CORPORATE RISK PROFILE

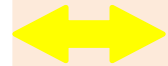
A Corporate Risk is a risk that has an impact across all areas of the Council such that it could prevent the Council delivering its corporate priorities. There are currently ten Corporate Risks - nine are RAG-rated as amber and one is RAG-rated as red.



Corporate Risk 6: Failure to effectively store, manage and process information and maintain the security of the personal data we hold, (or our partner agencies and commissioned providers hold on our behalf) in compliance with the Data Protection Act



Corporate Risk 7: Demographic changes lead to changed demand for services



Corporate Risk 8: Failure to effectively manage the Council's premises



Corporate Risk 9: Ineffective Emergency Response arrangements



Corporate Risk 10: Ineffective Business Continuity arrangements

CORPORATE RISK

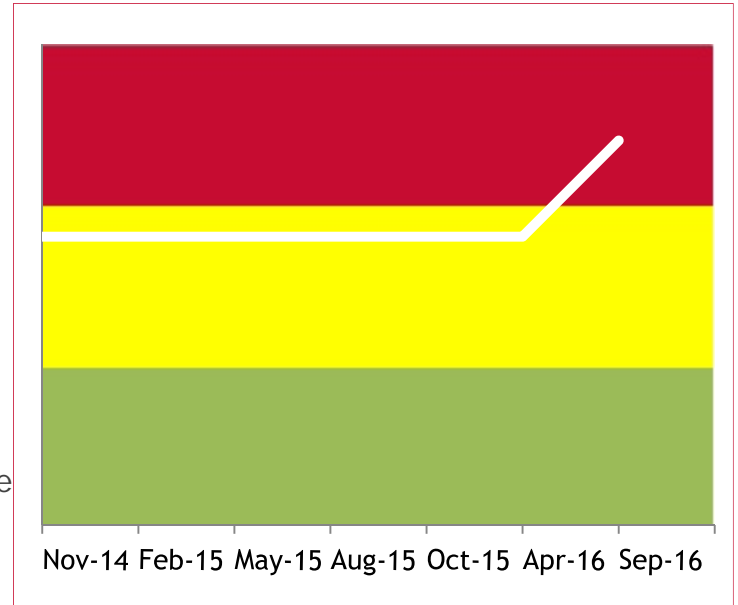
INCREASED TO RED SINCE LAST REPORT

FAILURE TO MAINTAIN BUSINESS AS USUAL / APPROPRIATE LEVELS OF SERVICE AT THE SAME TIME AS TRANSFORMATION

Q2 2016/17

WHY IS THE RISK RED?

- This risk has been rated as Red by the Directorate of Adult Services because of issues in restructuring the social work service in the South of the County. This is due to difficulties in recruiting social work managers, with an impact on service delivery and likely impact on achievement of planned savings.



MITIGATING ACTIONS

- The risk to business as usual is being mitigated (short term) through the use of agency managers to cover some of the current vacancies. This is leading to additional costs.
- Options to create development opportunities for new managers are under development.
- Setting up of a dedicated Social Work Recruitment Team in Nov 2016 which will focus on all qualified social worker vacancies with a view to:
 - Improving the candidate experience in terms of quality but also with the aim of reducing the time taken from advert being placed to offer
 - Work with different agencies and regional groups to look at how vacancies can be advertised to maximum effect and on an ongoing basis versus ad hoc
 - Creation of a 'pool' of social workers
 - Utilise social media including Yammer, Facebook etc
 - Creation of a bespoke 'adults' microsite for all vacancies

WHAT NEXT?

- Set up SW Recruitment Team
- Advertise 5 locality manager posts
- Advertise 14 Social Work vacancies
- Human Resources Business Partner to report back to Directorate Leadership Team at 3, 6, 9 and 12 months on successes of recruitment team to monitor progress

CORPORATE RISK

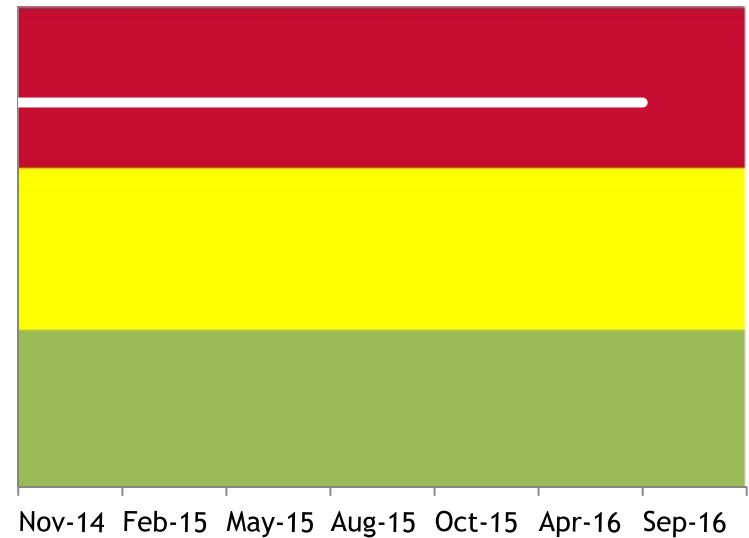
REMAINS RED SINCE LAST REPORT

DEMOGRAPHIC CHANGES LEAD TO CHANGED DEMAND FOR SERVICES

Q2 2016/17

WHY IS THE RISK RED?

- The changing demographic profile including an ageing population and changes to the needs of children and families is a challenge to the resources available to the Council. Work is underway but at the moment the risk remains rated as 'red'.



Page 7

MITIGATING ACTIONS

- Demand management has been identified as a major theme for the Council and has been endorsed by a recent Peer Challenge.
- Work to create a locally driven model for predicting demographic changes is nearing completion. Phase 2 will use this model and apply it to sub-groups of the population
- Work is being led at Directorate level to mitigate pressures e.g. through the Family Front Door, Connecting Families, All-age prevention policy, social impact bond for loneliness.
- Cross-cutting workstreams are in place e.g. enabling communities
- Behavioral insight 'nudge' techniques are being developed to test from January 2017
- Council agreement to implement the Government driven 2% Council Tax precept for adult social care
- Digital Strategy implementation to help manage demand e.g. Your Life Your Choice.

WHAT NEXT?

- Undertake detailed modelling for high demand areas
- Implementation of future/ adjustment of current demand management projects e.g. Family Front Door.
- Continue to raise profile of volunteering e.g. planned events
- Increase scope and usage of Your Life Your Choice site.

This page is intentionally left blank

Worcestershire County Council Corporate Risk Register

The identification and categorisation of risks is based on the assessment of the Probability (likelihood) and Consequences (impact) of the potential risk using the criteria listed below.

The **Likelihood** is assessed on a continuum ranging from **Almost Impossible** to **Very High** dependant on the degree of probability.

Likelihood and Impact Matrix

Likelihood				
Very High	9	19	21	24
High	8	12	20	23
Medium	4	11	15	22
Low	3	10	14	18
Very Low	2	6	13	17
Almost Impossible	1	5	7	16
	Negligible	Substantial	Critical	Extreme
	Impact			

High 19 – 24	Unacceptable Risk: Immediate control/improvement required
Medium 8 – 18	Acceptable Risk: Close monitoring and cost effective control improvements sought.
Low 1 – 7	Acceptable Risk: Need periodic review, low cost control improvements sought if possible.

The **Impact** should the risk occur can be assessed by using the consequence criteria below. It should be noted that this is a guide only and other considerations may be necessary.

Negligible	Substantial	Critical	Extreme
No injuries beyond 'first aid' level	Medical treatment required - long-term injury	Extensive, permanent injuries, long-term sick	Death
No significant disruption to service capability	Short-term loss disruption of service capability	Short-term loss of service capability	Medium term loss of service capability
Unlikely to cause any adverse publicity	Needs careful public relations	Adverse national/local publicity	Adverse national publicity
No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved/affected
Unlikely to cause complaint/litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Breaches of local procedures/standards	Breaches of regulations/standards	Breaches of the law punishable by fines only	Breaches of law punishable with imprisonment

Risk Appetite

A Risk Appetite will set the levels of risk the organisation is prepared to accept in pursuit of its business objectives using the Risk Appetite Levels. The scale of Low to High refers to a willingness to accept risks.

The Risk Appetite will help to determine the organisation’s risk tolerance to individual initiatives, projects or programmes.

Appetite Levels	Description
Averse (Low)	Avoidance of risk and uncertainty is a key objective
Minimalist (Medium Low)	Preference for ultra safe options that have a low degree of inherent risk and only have a potential for limited reward
Cautious (Medium)	Preference for safe options that have a low degree of residual risk and may only have limited potential for reward
Open (Medium High)	Willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward
Hungry (High)	Eager to be innovative and to choose options based on potential higher rewards (despite greater inherent risk)

Risk Heat Map

The risks listed in this register have been assessed based on the Likelihood and Impact Matrix. All risks based on their assessment **with controls in place** are included in the following Heat Map to provide a graphical overview of the risk levels and to support priority setting where necessary.



Corporate Risk Register – October 2016

No.	Risk Description (Accountable Officer)	Assessment	Likelihood	Impact	Rank ¹
CR 01	Failure to maintain business as usual (BAU) / appropriate levels of service at the same time as transformation	Uncontrolled	High	Critical	20
		Current E&I 15 CFC 11 COaCH 15 DAS 20	High	Critical	20
CR 02	Failure to deliver financial savings identified in MTFP	Uncontrolled	Very High	Extreme	24
		Current E&I 15, CFC 14 COaCH 15, DAS 15, Finance 10	Medium	Critical	15
CR 03	Failure to deliver a major project leading to increased costs, reputational damage to the Council and/or failure to realise savings	Uncontrolled	Very High	Extreme	24
		Current E&I 18, CFC 1, COaCH 15, DAS 15, Finance 14	Low	Extreme	18
CR 04	Serious harm or death due to a failure on the part of the Council	Uncontrolled	Very High	Extreme	24
		Current E&I 17, CFC 18, COaCH 17, DAS 18	Low	Extreme	18

Page 12

¹ Use Colours – Red, Amber or Green – with associated numbers 1 to 24 from Likelihood & Impact Matrix

No.	Risk Description (Accountable Officer)	Assessment	Likelihood	Impact	Rank ¹
CR 05	Failure to comply with legislation and statutory duties	Uncontrolled	High	Extreme	23
		Current E&I 18, CFC 18, COaCH 18, DAS 15, PH 14, Finance 13	Low	Extreme	18
CR 06	Failure to effectively store, manage and process information and maintain the security of the personal data we hold, (or our partner agencies and commissioned providers hold on our behalf). in compliance with the Data Protection Act	Uncontrolled	Very High	Critical	20
		Current E&I 11, CFC 12, COaCH 15, DAS 15, PH 15	Medium	Critical	15
CR 07	Demographic changes lead to changed demand for Services	Uncontrolled	Very High	Critical	24
		Current E&I 15, CFC 12, DAS 20	High	Critical	20
CR 08	Failure to safely, securely and effectively manage the Council's premises	Uncontrolled	Very High	Substantial	19
		Current E&I 10, CFC 10, COaCH 10, DAS 10	Low	Substantial	10
CR 09	Ineffective emergency Response arrangements	Uncontrolled	High	Critical	20
		Current E&I 1, CFC 11, COaCH 11, DAS 11, PH15	Medium	Critical	15

No.	Risk Description (Accountable Officer)	Assessment	Likelihood	Impact	Rank ¹
CR 10	Ineffective Business Continuity arrangements – Business Continuity arrangements need to keep pace with transformation and assurances in place for the arrangements of commissioned services	Uncontrolled	Very High	Critical	21
		Current E&I 15, CFC 11, COaCH 15, DAS 14, PH 11	Medium	Critical	15

AUDIT AND GOVERNANCE COMMITTEE

9 DECEMBER 2016

ARRANGEMENTS FOR THE APPOINTMENT OF THE COUNTY COUNCIL'S EXTERNAL AUDITOR

Recommendation

1. **The Chief Financial Officer recommends that the Audit and Governance Committee makes a recommendation to Council to 'opt in' to the appointing person arrangements proposed by the Public Sector Audit Appointments (PSAA) for the purpose of appointing the County Council's external auditors.**

Background

2. The Audit Commission was discontinued by the Local Audit and Accountability Act 2014. Transitional arrangements were established for the appointment of external auditor and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

3. The County Council's current external auditor is Grant Thornton UK LLP, who was appointed under a contract let by the Audit Commission. The contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for CLG.

4. The County Council's current annual external audit fees are £95,000. Over recent years the County Council's external audit fee has reduced by around 45%. This reduction has been delivered through a combination of factors including new contracts negotiated nationally with external audit providers and savings from closure of the Audit Commission.

5. When the current transitional arrangements come to an end on 31 March 2018, the County Council will potentially be able to move to local appointment of their External Auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities, which are explored further in this report.

6. The scope of the external audit and the issuance of the Code of Audit Practice will continue to be specified nationally by the National Audit Office (NAO). Any prospective provider of External Audit services will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of External Audit providers is still to be confirmed. It is anticipated that there will continue to be External Audit Providers of sufficient quality to meet our needs at the County Council.

Options for local appointment of External Auditors

7. There are three broad options open to the County Council under the Local Audit and Accountability Act 2014 (the Act). In each case, a broad summary of the respective advantages and disadvantages are set out in this section.

Option 1 - To make a stand-alone appointment

8. In order to make a stand-alone appointment the County Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act.

9. Independent members for this purpose are independent appointees, which excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which External Auditor to award a contract for the Council's External Audit.

Advantages/benefits

10. Setting up an auditor panel allows the County Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

11. Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.

12. The County Council may not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

13. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 Set up a Joint Auditor Panel / local joint procurement arrangements

14. The Act enables the County Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the County Council will need to liaise with other local authorities and/or public bodies to assess the appetite for such an arrangement.

Advantages/benefits

15. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities and/or public bodies.

16. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

17. The decision making body may be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council and/or public body, depending on the constitution agreed with the other bodies involved.

18. The choice of External Auditor could be complicated where individual Councils and/or public bodies have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the County Council.

19. Where conflict may occur, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose an External Audit provider that has a conflict then the County Council may still

need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 Opt-in to a Sector Led Body (Preferred option)

20. The PSAA has been specified by the Secretary of State for CLG as the Appointing Person for principle local government bodies, and as such will make External Auditor appointments for bodies that choose to opt in to the national appointment arrangements. This arrangement is sometimes described as a Sector Led Body (SLB) option.

21. Proposals are for External Auditors to be appointed under this arrangement for an initial period of five years commencing 1 April 2018.

Advantages/benefits

22. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and or public bodies. By offering large contract values, potential providers of External Audit may be able to offer better value for money given the size of the audits collectively being procured.

23. Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon. The appointment process would not be made locally. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities, in a similar fashion to the Audit Commission arrangements of the past. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

24. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

25. In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

Recommendation

26. Option 3 – Opting into a Sector Led Body for the purpose of appointing the County Council's External Auditor is recommended for the reasons set out in Section 3. The decision is reserved for Full Council within the Local Audit and Accountability 2014 Act (the Act).

27. The County Council have until December 2017 to make an appointment of external auditors from April 2018. In order that more detailed proposals can be developed the Committee is asked to recommend Option 3 as the County Council's preferred approach and for this to be communicated to the PSAA.

28. The closing date for opting in to the PSAA is 9 March 2017 to enable audit contracts to be awarded by end of June 2017.

Risk Management

29. PSAA have indicated that they require a commitment from the County Council by March 2017. Whilst there is no immediate risk to the County Council, early consideration of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner and maximise the opportunity to achieve Value for Money from its External Audit services.

30. Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the County Council.

Legal Implications

31. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

32. Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

33. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Financial Implications

34. Current external fees levels are likely to change when the current contracts end in 2018. The PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their costs. Any surplus funds will be returned to scheme members.

35. Fees will be charged to audited bodies in accordance with a scale of fees which has regard to size, complexity and audit risk, most likely evidenced by audit fees for 2016/17.

36. Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

Equality and Diversity Implications

37. An Equality Relevance Screening has been completed in respect of these recommendations. The screening did not identify any potential Equality considerations requiring further consideration during implementation.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: Ext. 6268

Email: spearce@worcestershire.gov.uk

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.

This page is intentionally left blank

**AUDIT AND GOVERNANCE COMMITTEE
9 DECEMBER 2016****ANNUAL AUDIT LETTER 2015/16**

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The Annual Audit Letter 2015/16 be noted;**
 - b) **The Committee considers whether it wishes to receive any further reports on information contained in the Letter; and**
 - c) **The Committee considers whether there are any issues arising from the Letter to draw to the attention of the Council.**

Summary

2. Grant Thornton is responsible for producing an Annual Audit Letter which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts.
3. Representatives from Grant Thornton will attend the meeting to discuss the findings. A copy of the Letter is attached as an appendix.

Contact PointsCounty Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: Ext. 6268

Email: spearce@worcestershire.gov.uk

Supporting Information

- Appendix – The Annual Audit Letter 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.

This page is intentionally left blank

The Annual Audit Letter for Worcestershire County Council

Year ended 31 March 2016

October 2016

Page 23

John Gregory

Engagement Lead

T 0121 232 5333

E john.gregory@uk.gt.com

Helen Lillington

Audit Manager

T 0121 232 5312

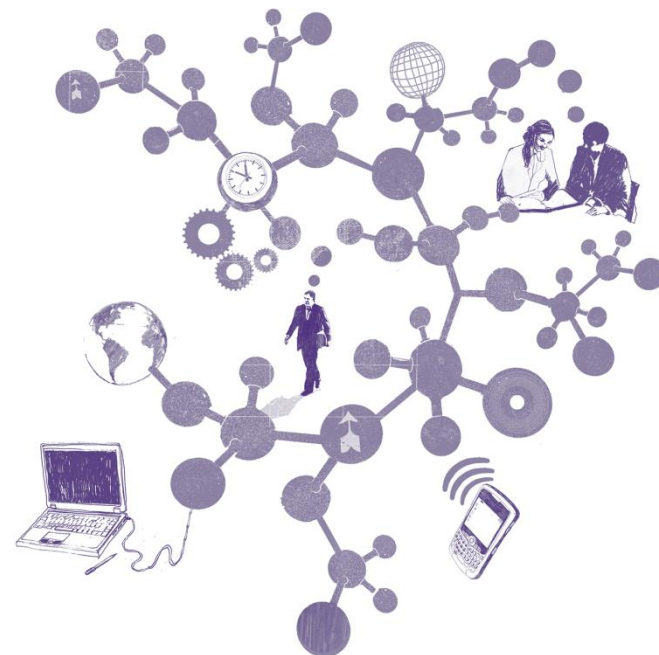
E helen.m.lillington@uk.gt.com

Kathryn Kenderdine

In-charge auditor

T 0121 232 5316

E kathryn.a.kenderdine@uk.gt.com



Contents

Section	Page
1. Executive summary	[3]
2. Audit of the accounts	[5]
3. Value for Money conclusion	[11]
4. Working with the Council	[15]

Appendices

A Reports issued and fees

Page 24

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 21 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on both the Council's financial statements and those of the Pension Fund on 28 July 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 18 October 2016

Certificate

We certified that we had completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code on 21 October 2016.

Page
26

Working with the Council

We have continued to work collaboratively with you during the year ensuring a smooth and efficient audit delivered well in advance of the statutory deadline. Where appropriate we have shared our knowledge, through either thought leadership or by providing training and briefing materials on key accounting issues. Officers have benefited from attending a number of seminars and workshops, and have gained access to CFO insights, our online analysis tool.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £15.516m, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration and the disclosure of the audit fee.

We set a lower threshold of £775,800, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

Pension Fund

For the audit of the Worcestershire Pension Fund accounts, we determined materiality to be £19.873. which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as management expenses and related party transactions. We set a threshold of £994,000 above which we reported errors to the Audit and Governance Committee.

The scope of our audit

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

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 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; and • the culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable. <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed the accounting estimates, judgements and decisions made by management, • tested journal entries, and • reviewed unusual significant transactions. <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

Page 20

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment</p> <p>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 the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed the competence, expertise and objectivity of any management experts used, • reviewed management's processes and assumptions used for the calculation of the estimate, • reviewed the instructions issued to valuation experts and the scope of their work, • discussed with the valuer the basis on which the valuation was carried out and challenged the key assumptions, • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding, • tested revaluations made during the year to ensure they were input correctly into the Council's asset register, and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>This is the first year that the Council has used PPL to value its assets, and there have been some teething problems in ensuring the correct information is provided in a timely manner. The formal valuation report was not available for the start of the audit fieldwork, nor was the evaluation of how management had satisfied themselves that for assets not revalued during the year there was no material difference to the current value held on the balance sheet. Further work was required by officers to provide appropriate assurance that assets not revalued in year were not materially misstated.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether the controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement, • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation, • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary, and • gained assurance over the controls over the information provided to the actuary. <p>Our audit work has not identified any issues in respect of the pension fund net liability.</p>

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 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 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; and • 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>Our audit work has not identified any material issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management, • tested journal entries • reviewed unusual significant transactions <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>Our interim audit identified that there had been delays in posting investment journals during the year, however this had all been resolved during the year end processes.</p>

Page 30

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments are those investments which are not actively traded and by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>As part of audit work we have:</p> <ul style="list-style-type: none"> • gained an understanding of the transactions via discussions with the pension fund team and reviewed supporting documentation. • carried out walkthrough tests of the controls identified in the cycle. • tested a sample of investments 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 31s March with reference to known movements in the intervening period. • reviewed the qualifications of 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. • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • reviewed the competence, expertise and objectivity of any management experts used. <p>This is the first year that the Fund has had level 3 investments, investing just over 8% of the value of the fund in this way. As a result there were some instances where we needed to work with both officers and individual fund managers to ensure we had the appropriate assurances in place over the valuation of these investments.</p> <p>We have no material issues to report in respect of the valuation of level 3 investments. However, we have made some recommendations for improvements to disclosures.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them, with improvements in key areas such as property, plant and equipment. There remain areas where further improvements could be made and these have been discussed with officers.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 21 July 2016. The overall volume and significance of the issues raised during the audit decreased from the prior year, with no adjustments identified which affected the Council's reported financial position. The adjustments made to the accounts were made to improve the overall presentation of the financial statements and ensure greater alignment with the Code.

We also reported that the notice of audit initially published by the Council was not in accordance with the new Accounts and Audit Regulations 2015. This situation was resolved during the on site audit visit, and a revised notice was issued on the website to ensure compliance.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit and Governance Committee on 21 July 2016. As for the County audit there were no changes made to the financial position of the fund, and a number of improvements had been made to the quality of the working papers to support the financial statements.

We noted that this year was the first year that the fund have invested in level 3 investments, which add an additional level of complexity to the valuation of these assets. As a result of the first time nature of these investments, working papers were less developed, and greater narrative disclosure was required within the accounts to highlight both the level of estimation uncertainty in the accounts as a result of these investments and the critical judgements required.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. We commented that there was scope to improve the disclosures within the narrative report and provide a greater level of transparency for the reader of the accounts.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to exercise any of our other statutory duties in relation to the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed the following recommendation to address our findings.

- As part of reviewing the budget reports and the information presented to members, we have discussed with officers the levels of reserves and balances currently held when compared with other similar local authorities. While we acknowledge the rationale for these balances, there is scope to include greater transparency in the budget reporting.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<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 local authority trading company.</p>	<p>We have reviewed the Council's current progress against its vision and gained an understanding of the picture of Commissioning across the authority.</p>	<p>The Council currently provides a significant proportion of its services, (just over 75%) through external providers. The services provided in this way are wide ranging, and include residential and nursing provision (£64m), day care and supported living (£44m) and waste management (£39m). Officers and members recognise the importance of good commissioning arrangements and the authority has been restructured to enable the focus in this area to continue. Investment has been made to ensure that the Council has the appropriate skills in place to both negotiate contracts and manage those already in place.</p> <p>During the year, there has been significant activity, including the creation of Place Partnership, a property asset management local authority trading company, the commissioning of Learning and Achievement support services to Babcock international, internal commissioning of children's residential centres and the sale of ICT to Schools to Capita Children's Services. In each case the benefits to both the Council and service users have been carefully considered and reported to members.</p> <p>The Council continues to look at the varied ways that services can be provided and how to achieve the best outcomes for its service users. Given the current budget constraints this area will continue to be key to ensuring the financial sustainability of the Council.</p>

Value for Money

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<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>We have reviewed the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p>Historically the Council has a strong track record of meeting its financial targets. The outturn position after the transfers to directorate reserves shows a surplus of £0.8m on actual expenditure of £331m. As for the prior year, this year end position continues to mask a significant cost pressure in children's services of £5.7m. This cost pressure has been consistently predicted and reported throughout the year, with detailed reporting explaining how the actions taken have not been able to contain spending within the original budget.</p> <p>The original savings target has been delivered, however £3m of this was met with one off savings rather than those originally planned. These un-met savings have been carried forward and are included within the 2016/17 targets as part of the medium term financial plan.</p> <p>Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying £24.8m of savings to be made in 2016/17, with further savings of £34.1m in 2017/18, £24.1m in 2018/19 and £21.7m needed in 2019/20. For 2016/17 plans are in place for the achievement of the £24.8m, with work well advanced on how savings could be achieved in future years.</p> <p>As part of reviewing the budget reports and the information presented to members, we have discussed with officers the levels of reserves and balances currently held when compared with other similar local authorities. While we acknowledge the rationale for these balances, there is scope to include greater transparency in the budget reporting.</p> <p>While the long term funding of the Council continues to reduce, there are appropriate arrangements in place to balance the budget. Officers and members continue to demonstrate a good understanding of the financial constraints that they are working within, and how these can be managed to produce the best outcome for residents.</p>

Value for Money

Table 2: Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<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>We have reviewed the Council's arrangements for managing the overspend, and the plans in place to ensure that this service is sustainable.</p>	<p>The authority continues to recognise the challenges it faces for looked after children, and while putting in place a number of areas of work around demand management and cost reductions, due to the nature of these projects there is limited evidence of success in the short term. Further budget pressures have been identified in 2016/17 with a further £5m of growth being included in the budget in this area.</p> <p>There is evidence that key parts of the recovery plan are being achieved, however given the nature of the service there remain risks and sensitivities that the plans in place do not deliver the requirement improvements in outcomes and reductions in costs as envisaged over the medium term financial plan.</p> <p>There is clear scrutiny in this area, and arrangements appear appropriate.</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>We have reviewed the Council's arrangements for working with its health partners.</p>	<p>The Corporate plan has four areas of focus, one of these is the Health and Wellbeing of Worcestershire. The plan recognises that key to the achievement of this objective is the need to work in partnership with a wide range of organisations.</p> <p>The county has a number of arrangements in place as to how it works with the health sector and other interested partners. Part of these arrangements include the operation of the Health and Well Being board and the Health overview and scrutiny committee.</p> <p>Progress on the areas of focus within the Corporate Plan is regularly monitored by the Cabinet, with key achievements such as the introduction of 'Your Life Your Choice' and the success of the promoting independence programme being recognised.</p> <p>There is evidence that officers from both the Council and local health bodies work well together, with progress made in a number of areas, particularly in the re-commissioning of services such as integrated recovery. These arrangements will need to continue to develop as funding continues to reduce across the whole of the public sector.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship, and together delivered effectively.

An efficient audit – we delivered the accounts audit at the end of July, two months before the statutory deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – we have worked with you during the year and highlighted issues as they have arisen, particularly where these would have impacted on the ability to meet the early opinion deadline set.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular updates covering best practice. Areas we covered included Innovation in public financial management, Making devolution work, and Reforging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights that are appropriate.

Thought leadership – We have shared with you our publication on Building a successful joint venture and officers attended our seminar held in our Birmingham office in July.

Providing training – we provided your teams with training on financial accounts and annual reporting. We have continued to provide the finance team with regular updates on emerging issues, particularly Highways Network Assets, which will be a key issue for the production of the accounts in 2016/17.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Working with the Council

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with key accounting staff. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted that the finance team have a plan in place and this is supported by the finance team and also the team from highways.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year in other areas, in particular the change of financial system.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	95,446	95,446	136,171
Statutory audit of Pension Fund	24,963	24,963	24,963
Agreed fee variation on Pension Fund for IAS 19 required work for admitted bodies	1,193	1,193	1,193
Total fees (excluding VAT)	121,601	121,601	162,327

Fees for other services

Service	Fees £
Audit related services:	
• Gypsy and Traveller grant	£3,000
• Major Transport grant	£3,500
• SFA compliance work	£4,000
Non-audit services	£0

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

**AUDIT AND GOVERNANCE COMMITTEE
9 DECEMBER 2016****INTERNAL AUDIT PROGRESS REPORT 1 APRIL TO 30
OCTOBER 2016**

Recommendations

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 from 1 April to 30 October 2016 for consideration by the Committee.

Contact PointsCounty Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: Ext 6268

Email: spearce@worcestershire.gov.uk

Supporting Information

- Appendix - Internal Audit Progress Report 1 April to 30 October 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:

This page is intentionally left blank



Internal Audit Progress Report

“Providing assurance on the management of risks”

Internal Audit Progress Report

“Providing assurance on the management of risks”

This report summarises the results of all audit work since the previous report to the Committee.

Summary of completed assurance work

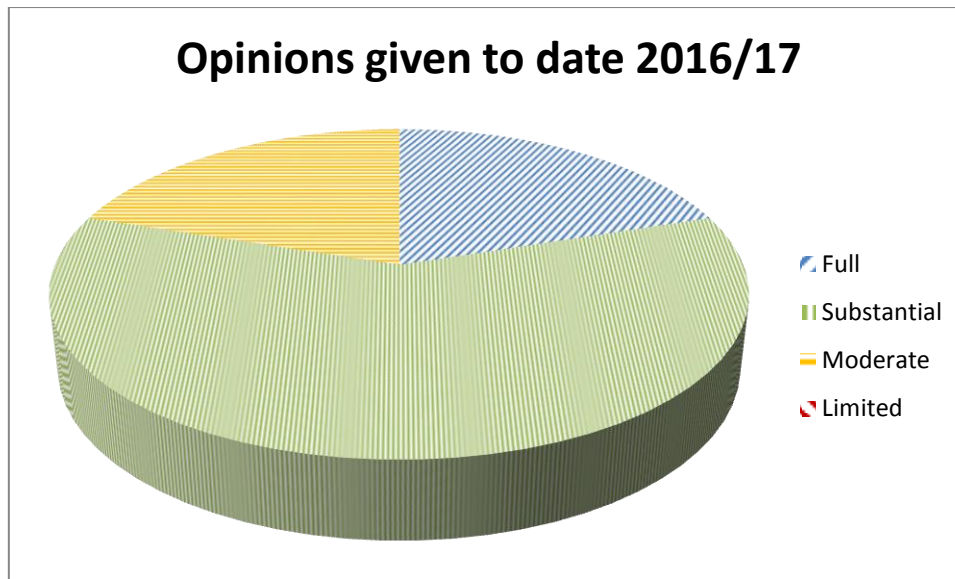
The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.

Table 1 summarises the results of the assurance work completed during the period showing the opinion given.

Table 1: Summary of completed audits.

Audit		Level of Assurance
1	Children’s Recovery Plan	Full
2	Learning and Achievement	Substantial
3	Residential Placements	Moderate
4	Safeguarding	Substantial
5	Adults – Financial Assessments	Substantial

The proportion of audits completed to date in 2016/17 given each level of opinion is illustrated in the following chart:



The following audits are nearing completion with draft reports issued and management comments awaited:

- Financial and Commercial Management Skills
- Transport Infrastructure
- Section 106
- School Visit – Fort Royal
- Commissioning & Placement process
- IT – User access
- IT – Infrastructure
- IT Commissioning

In addition, the following 2015/16 audits reported to Committee in the Internal Audit Annual Report dated 21 July 2016 have now been issued as final reports:

- Pensions Administration
- Pensions Investments
- Pensions Governance
- SEN(D) Transport
- Foster Payments
- Controls around Purchase Orders/ Payments
- Payroll
- Transactional HR, Payroll & Finance: Contract Management

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance, are: Merits Attention, Significant and Fundamental.

Each audit report includes an action plan which includes target dates for implementing the agreed recommendations. Managers are accountable for implementing these action plans. The appendices, which are based on information provided by the relevant managers summarise progress on implementing agreed audit recommendations.

Appendix A summarises all the outstanding recommendations arising from the 2015/16 audit plan and shows that in total only 18 are still to be implemented. Appendix B summarises all recommendations arising from the 2016/17 plan. Unsurprisingly many recommendations made during the year have not yet reached their agreed implementation date.

Summary of non-assurance work

Counter Fraud

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a number of special investigations are in progress or have concluded during the year and a summary of the significant issues arising from these completed investigations are reported below:

- Internal Audit was asked to investigate an officer who had failed to declare relevant interests at the appropriate time. The investigation concluded that there was a case to answer but the officer resigned prior to the Disciplinary Hearing taking place.
- Investigations to support HR into allegations of a Children and Family Support Worker claiming for hours not worked has now resulted in the employee leaving the Council's employment.

An allegation of a Company fraudulently claiming grant funding from the Council is still being investigated by the Police.

Internal Audit continues to act as the lead co-coordinator for the National Fraud Initiative (NFI), all data was successfully uploaded by the required deadline. The matching results are expected to be issued to the Council in February 2017.

Certification

The period saw a number of grant claims requiring certification i.e.

- Bus Service Operators Grant (BSOG)
- Local Transport Plan – Structural Maintenance
- Local Transport Plan – Integrated Block
- Local Growth Fund
- Growth Hub

These were all satisfactorily audited by the required deadlines.

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the period the service has provided an input to various corporate projects and this work is consistently welcomed by managers.

Internal Audit has continued to provide a range of advice since the last report to the committee including:

- E-Market Place (Your Life Your Choice).
- Superfast broadband payment claims and on-going assurance processes.
- Attendance at the monthly Procurement Board, the Corporate Information Governance Group and the Corporate Risk Management Group.
- Transport contracts.
- Place Partnership Limited (PPL).

In addition a summary of the issues raised during various Commissioning audits has been issued to the Head of Commercial.

Reports for Publication

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

- Pensions Administration
- Pensions Investments
- Pensions Governance
- SEN(D) Transport
- Foster Payments
- Controls around Purchase Orders/ Payments
- Payroll
- Children's Recovery Plan
- Learning and Achievement
- Residential Placements
- Safeguarding
- Adults – Financial Assessments
- Transactional HR, Payroll & Finance: Contract Management

This list includes the 2015/16 reports finalised since the Annual Audit Report.

Published reports can be accessed by the following link:

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

Appendix A - 2015/16 Audits with outstanding recommendations

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Care Act Implementation	1	0	0	0	1	0
Economy and Infrastructure							
	Highways Maintenance Contract	2	0	0	1	0	1
	Highways Customer and Community	3	0	0	2	1	0
	Flood Management	3	0	0	0	0	3
Children, Families and Communities							
	SEN(D) Transport	5	0	0	2	3	0
	Child Academic Improvements in Care Homes	10	0	0	4	0	6

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Foster Payments	6	0	0	5	1	0
	Foster Carers - the Foster Carer Journey	4	0	0	3	1	
	Direct Payments - Children	9	0	0	4	0	5
	St James CE Primary School	17	0	0	14	0	3
Commercial & Change							
	Job Evaluation	2	0	0	0	2	0
	Business Ownership of Systems and Assets	2	0	0	1	1	0
	Payroll	4	1	0	0	3	0
Finance							
	Controls around Purchase Orders/Payments	5	0	0	1	4	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Pension Fund							
	Pensions admin	3	0	0	0	3	0
	Pensions Investment	2	0	0	1	1	0
	Pensions Governance	2	0	0	0	2	0
Total		80	1	0	38	23	18

Appendix B - 2016/17 audit recommendations

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Children, Families and Communities							
	Children's Recovery Plan	0	0	0	0	0	0
	Learning & Achievement	1	0	0	0	1	0
Adult Services							
	Residential Placements	8	0	0	6	2	0
	Safeguarding	1	0	0	1	0	0
	Financial Assessments	1	0	0	0	1	0
Total		11	0	0	7	4	0

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

9 DECEMBER 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

24 March 2017

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

21 July 2017

Annual Statutory Financial Statements for the year ending 31 March 2017
Annual Governance Statement
Internal Audit and Delegated Service Annual Report 2016/17
Internal Audit Risk Assessment and Plan 2017/18
Corporate Risk Report

12 October 2017

Internal Audit Progress Report 2017/18
Counter Fraud Report

8 December 2017

Internal Audit Progress Report 2017/18
External Audit Letter 2016/17
Corporate Risk Report

Contact Points

County Council Contact Points

County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Simon Lewis, Committee Officer
Tel: 01905 766621
Email: slewis@worcestershire.gov.uk

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