

Agenda

Audit and Governance Committee

Friday, 21 July 2017, 10.00 am
County Hall, Worcester

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

(Kurdish) کردی سۆزانی، ننگر ناتوانی تێبگدی له نامۆرۆکی نهم بێلگهیه و دستت به ههچ کس ناگات که و بیهێگریتوه بۆت، تکایه تهلپۆن بکه بۆ ژمارهی 01905 765765 و داوای رهنۆینی بکه.

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, 21 July 2017, 10.00 am, County Hall, Worcester

Membership: Mr N Desmond (Chairman), Mr R W Banks, Mr A J Hopkins, Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Ms R Vale

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 Thursday, 20 July 2017). 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 24 March 2017 (previously circulated – pink pages).	
5	External Audit Progress - Worcestershire County Council Annual Statutory Financial Statements for the year ended 31 March 2017	1 - 2
6	External Audit Progress - Worcestershire County Council Pension Fund Annual Statutory Financial Statements for the year ended 31 March 2017	3 - 72
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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 on 01905 846621, slewis@worcestershire.gov.uk

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

Date of Issue: Wednesday, 12 July 2017

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AUDIT AND GOVERNANCE COMMITTEE
21 JULY 2017**EXTERNAL AUDIT PROGRESS REPORT –**
WORCESTERSHIRE COUNTY COUNCIL ANNUAL
STATUTORY FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH 2017

Recommendation

- 1. The Chief Financial Officer recommends that the progress made on the External Audit of the 2016/17 Worcestershire County Council Statement of Accounts be noted and the plan return to the Committee meeting on 26 September 2017 for final approval.**

Background

2. This report sets out progress on the work to date to support the independent external audit of the 2016/17 Statement of Accounts. An interim audit findings report from the County Council's External Auditor, Grant Thornton UK LLP is included.
3. The Chief Financial Officer would like to express his thanks to Grant Thornton staff for the external audit work completed to date.

2016/17 Closedown Process – Key Dates

4. Completion of the Statement of Accounts process for the 2016/17 financial year and their approval by the Audit and Governance Committee is planned for the 26 September 2017 Committee meeting alongside formal approval by Committee of the Annual Governance Statement.
5. It has been usual practice for many years for the Audit and Governance Committee to approve an audited set of accounts and the Annual Governance Statement, subject only to matters arising from the public inspection period or the statistical Whole of Government Accounts reporting exercise, at its annual June/July meeting.
6. This year the process has proved more difficult to complete, and further work will be required by the County Council and subsequently the External Auditor over August 2017 to complete the process.
7. Whilst this is later than originally planned, the County Council has met its statutory obligations by issuing a set of accounts before the end of June on the County Council's website and advertising the formal 30 day public inspection period which finished on 14 July 2017. The final stage in this process will be the Committee approval in September 2017.

8. The External Auditor has issued an interim findings report which is included as an Appendix. This report summarises findings to date to support a detailed work plan that the County Council will follow to ensure errors and misstatements are corrected and all items of outstanding work are completed prior to the September 2017 Committee meeting.

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

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Supporting Information

- Appendix - Interim Audit Findings Report 2016/17 (To follow)

Background Papers

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

- Statement of Accounts 2015/16
- Budget 2016/17

AUDIT AND GOVERNANCE COMMITTEE
21 JULY 2017**EXTERNAL AUDIT PROGRESS REPORT –**
WORCESTERSHIRE COUNTY COUNCIL PENSION FUND
ANNUAL STATUTORY FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 MARCH 2017

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **the progress made on the External Audit of the 2016/17 Worcestershire County Council Pension Fund Statement of Accounts be noted and the plan return to the Committee meeting on 26 September 2017 for approval.**
 - b) **the Worcestershire County Council Pension Fund Audit Findings Report for the financial year ending 31 March 2017 be noted.**

Background

2. This report sets out progress to date to support the independent external audit of the 2016/17 Worcestershire County Council Pension Fund Statement of Accounts. An audit findings report from the County Council's External Auditor, Grant Thornton UK LLP, is included.
3. The Chief Financial Officer would like to express his thanks to Grant Thornton staff for supporting the delivery of an audited set of accounts by this Committee date.

2016/17 Closedown Process – Key Dates

4. The audit work is substantially complete and the External Auditor anticipates providing an unqualified opinion on the Pension Fund's Statement of Accounts. This is expected to take place at the 26 September 2017 Committee meeting alongside the County Council's Statement of Accounts. The External Auditor's Audit Findings Report is contained in Appendix 2. The formal 30 day public inspection period ended on 14 July 2017 with no known significant issues raised as of 12 July 2017. A verbal update will be provided to the Committee on any issues raised in the interim period.
5. The remaining steps are summarised below:
 - a) Minor residual audit compliance work around consistency between the Pension Fund Annual Report 2016/17 and the Pension Fund Statement of Accounts 2016/17.
 - b) Audit and Governance Committee approval on 26 September 2017.

Statement of Accounts for the Year Ending 31 March 2017

6. The Statement of Accounts that provide a comprehensive picture of the Worcestershire County Council Pension Fund financial position is attached as Appendix 1.

7. The independent external auditor has indicated that they will issue an unqualified audit opinion. Their Audit Findings Reports is attached as Appendix 2.

Matters of substance

8. The key headlines are:

- The Pension Fund's Net Assets increased by 27.1% (£529 million) to £2.48 billion. This included the addition of £29.4 million of investment income (£38.1 million in 2015/16) along with £494.1 million profit and losses on disposal of investments and changes on the market value of investments.
- During the year a surplus resulted on the Pension Fund account totalling for 2016/17 £34.4 million, a decrease of £4.2 million from the surplus of £38.6 million for 2015/16.
- The last actuarial valuation of the Fund at 31 March 2016 indicated assets covered 75% of liabilities (69% at 31/03/2013). Changes in Employers' Contribution Rates will take place from 1 April 2017 and normal fund management are both expected to ensure that assets will match 100% of liabilities over 18 years. The next actuarial valuation will use data at 31st March 2019 with any changes in contribution rates effective from 1st April 2020.

9. There are no further matters of substance that need to be brought to members of the Committee's attention.

Contact Points

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Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: 01905 846268

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Supporting Information

- Appendix 1 Worcestershire County Council Pension Fund Statement of Accounts 2016/17
- Appendix 2 Audit Findings Report - Worcestershire County Council Pension Fund Audit 2016/17

Background Papers

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

- Worcestershire County Council Pension Fund Statement of Accounts 2015/16

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Worcestershire County Council Pension Fund

Statement of Accounts 2016/17

About the Accounts

This Statement of Accounts presents the overall financial position of the Pension Fund for the year ended 31 March 2017. The format of the Accounts are produced in accordance with best accounting practice, as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts.

- 1. Explanatory Foreword and a Review of the Year 2016/17**
Contains a review of the year and other general information about the accounts.
- 2. The Worcestershire County Council Pension Fund Account**
Details the money received and spent within the Pension Fund during 2016/17
- 3. Net Assets Statement**
Statement showing the Pension Fund's financial position at 31 March 2017.
- 4. Notes to the Pension Fund Accounts**
Notes providing additional information for the Fund Account and Net Assets Statement.
- 5. Statement of Accounting Policies**
Accounting policies and procedures adopted by the County Council Pension Fund

1. Explanatory Foreword and a Review of the Year 2016/17

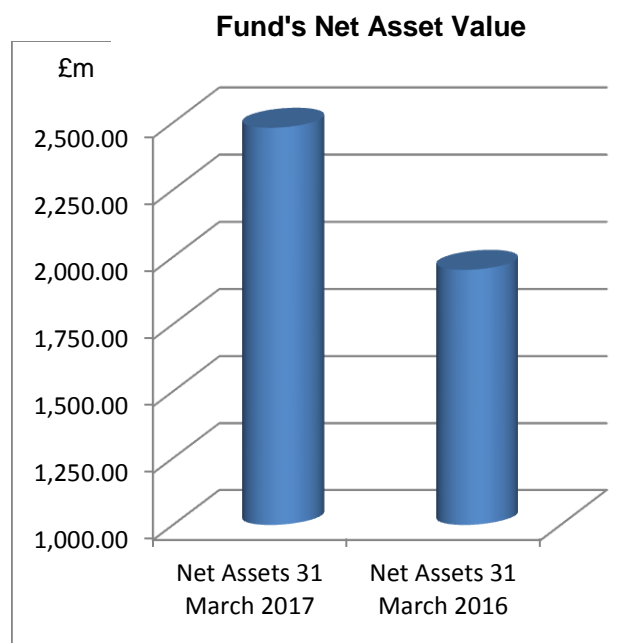
Foreword by the Chief Financial Officer

Welcome to the Worcestershire County Council Pension Fund 2016/17 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Aims and purpose of the Scheme	
The aims of the Scheme are to:	
✓	enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies
✓	manage employers' liabilities effectively
✓	ensure that sufficient resources are available to meet all liabilities as they fall due, and
✓	maximise the returns from investments within reasonable risk parameters.
The purpose of the Scheme is to:	
✓	receive monies in respect of contributions, transfer values and investment income, and
✓	pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

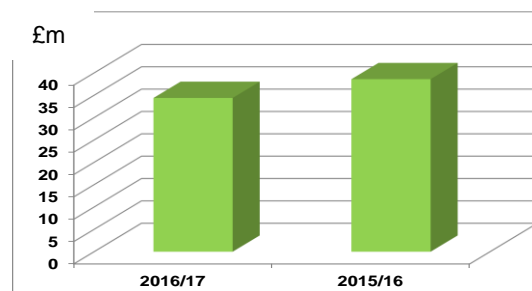
Key headlines

- The value of the Fund's net assets increased by £528.6 million from £1,952.3 million at 31 March 2016 to £2,480.9 million at 31 March 2017:
- Recurring income from contributions increased by 3.4%, due to the impact of the uplift in contribution rates following the 2013 actuarial valuation. Net investment earnings decreased by 22.8%, due to the transition of active equity investments to passively managed pooled funds, whilst ongoing expenditure increased by 2.5%. The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.



- Contributions from staff and employers plus net interest and dividends received exceeded benefits paid in 2016/17 by £41.7 million. It is expected that an operating surplus will exist for the foreseeable future.
- During the year a surplus resulted on the Pension Fund account totalling for 2016/17 £34.4 million, a decrease of £4.2 million from the surplus of £38.6 million for 2015/16. The fall in surplus is mainly as a result of the fall in investment income.
- An analysis of changes within the fund's membership profile is displayed below:

Surplus on the pension fund account



	31 March 2016	31 March 2017	Change	Change %
Contributors to the fund	22,697	22,308	(389)	(1.7)
Pensions paid	16,353	16,918	565	3.5
Deferred members*	18,771	19,970	1,199	6.4
	57,821	59,196		

* The increase in deferred members is in part due to employers reducing staff headcount and the ex-employees choosing to retain their accrued benefits in the scheme as opposed to transferring out.

Governance

The Council has established a Pension Committee to exercise the Administering Authority's responsibility for the management of the Worcestershire County Council Pension Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively The Pension Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Advisory Panel.

The Council has also established a Pension Board, which has been operational since July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to: (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and; (b) to ensure the effective and efficient governance and administration of the Scheme.

The Pension Fund's Governance Policy Statement is published on the Council's website. The Policy Statement ensures that the Fund's governance arrangements comply with the LGPS Regulations and are aligned to prescribed best practice guidance.

Management of the fund's assets

The management of the fund's assets is operated through nine specialist external managers with ten mandates in total. The Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser.

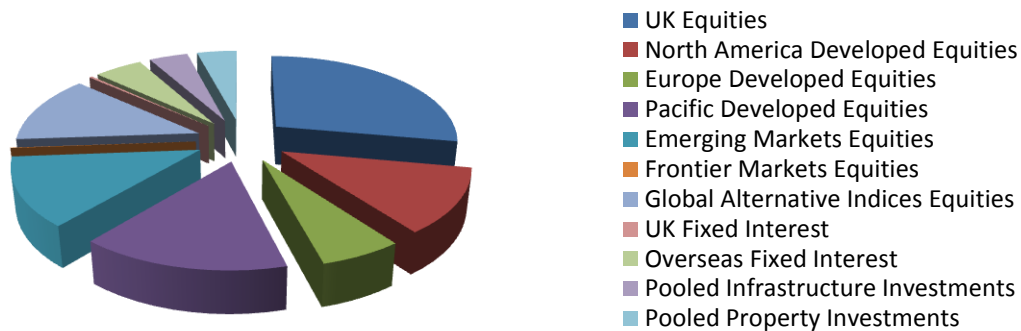
The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2016/17:

- An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

- b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.
- c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

As at 31st March 2017 the 2013 strategic asset allocation review recommendation of a 10% commitment to 'Alternatives including property' was fully implemented following investments into three pooled property funds; Invesco Real Estate – European Fund, Venn Commercial Real Estate Fund, Walton Street Real Estate Debt Fund and two pooled Infrastructure funds; UK Green Investment Bank Offshore Wind Fund and Hermes GPE Infrastructure Fund (Core).

The following chart details the distribution of the fund's assets as at 31 March 2017:



On 25th November 2015, DCLG published its response to the May 2014 consultation (Opportunities for collaboration, cost savings and efficiencies). It said responsibility for asset allocation would stay with the 90 administering authorities and that savings could be delivered through the use of asset pooling and, in particular, collective investment vehicles. Worcestershire County Council Pension Fund in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) under the brand 'LGPS Central' submitted their initial proposals to the Government by 19th February 2016. On 15th July 2016 the eight Funds made a final submission that fully addressed the government's pooling criteria. The submission included a business plan to pool assets under a regulated structure and to be operational from 1st April 2018.

Management of the fund's liabilities

The funding strategy is kept under regular review by the Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The key outcomes of the valuation are detailed below:

- The Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.
- A common rate of contribution of 15.3% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Sean Pearce
CPFA
Chief Financial Officer

2. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2017

2015/16 £m		Notes	2016/17 £m
	Dealings with members, employers and others directly involved in the fund		
104.3	Contributions	5	107.8
5.4	Transfers in from other pension funds	6	8.0
109.7			115.8
(93.9)	Benefits	7	(95.5)
(7.3)	Payments to and on account of leavers	8	(7.0)
(101.2)			(102.5)
8.5	Net additions / (Withdrawals) from dealings with members		13.3
(1.2)	Administrative expenses	9	(1.0)
(6.8)	Management expenses	10	(7.2)
0.5	Net additions / (Withdrawals) including fund management and administrative expenses		5.1
	Returns on investments		
40.0	Investment income	11	30.4
(1.9)	Taxes on income	12	(1.0)
(73.6)	Profit and losses on disposal of investments and changes in the market value of investments	13a	494.1
(35.5)	Net return on investments		523.5
(35.0)	Net increase / (decrease) in the net assets available for benefits during the year		528.6
1,987.3	Opening fund net assets of the scheme		1,952.3
1,952.3	Closing fund net assets of the scheme		2,480.9

3. Net Assets Statement for the year ended 31 March 2017

2015/16 £m		Notes	2016/17 £m
0.0	Long term Investment Assets	13	0.1
1,918.4	Investment Assets	13	2,453.4
20.0	Cash deposits	13	22.4
1,938.4			2,475.9
(5.6)	Investment Liabilities	13	(5.2)
21.2	Current Assets	16	12.0
2.2	Non Current Assets	17	1.4
(3.9)	Current Liabilities	18	(3.2)
1,952.3	Net Assets of the fund available to fund benefits at the period end		2,480.9

The Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in the Actuarial Statement included in the Pension Fund Annual Report and note 2 to the accounts.

4. Notes to the Pension Fund Accounts

1. Description of Fund

a) General

The Pension Fund is administered by the County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, Private Sector admitted bodies with staff transferred under TUPE from the Administering Authority and other bodies in the county of Worcestershire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser and the scheme manager. The Pension Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually and pension administration issues are to be discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pension Committee.

The day to day management of the Fund's investments is divided between nine external investment managers operating in accordance with mandates set out in the Statement of Investment Principles.

b) Membership

A list of scheduled and admitted bodies contributing to the Fund is given in Note 25 to these accounts.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Worcestershire County Council Pension Fund include:

- Scheduled bodies, which are the local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 194 employer organisations within the Worcestershire County Council Pension Fund including Worcestershire County Council.

The following table provides detail of fund membership:

	31 March 2016	31 March 2017
Contributors to the fund		
County Council	8,049	8,049
Other employers	14,648	14,259
Total	22,697	22,308
Pensions paid		
County Council	4,473	4,721
Other employers	11,880	12,197
Total	16,353	16,918
Deferred members		
County Council	8,142	8,307
Other employers	10,629	11,663
Total	18,771	19,970
Total number of members in the fund	57,821	59,196

A separate detailed Annual Report and Accounts, including the Statement of Investment Principles, is available from the Chief Financial Officer, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. The report is also available on the Council's website:

www.worcestershire.gov.uk/downloads/download/697/pension_fund_annual_report

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2017. Employee contributions are matched by employers' contributions which are set based on triennial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2016/17 employer contribution rate for the fund is 15.3%. In order to ensure employer contribution increases, required by the fund's actuary following the 31st March 2013 actuarial valuation, remained affordable, the administering authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Benefits payable from the fund are governed by the Superannuation Act 1972, the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014.

Retirement Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index. Members in the 50/50 option build up a pension of a 98th of the pay received during that year, which is again protected against inflation.

Ill health pensions can be awarded based on one of three tiers for those that satisfy the scheme's criteria for permanent incapacity. Those in the 50/50 option have full ill-health and death cover.

Membership that was built up before 1 April 2014 continues to provide benefits as it did at the time. Membership from 1 April 2008 to 31 March 2014 provides final salary pensions based on 60ths. Membership before that also provides final salary benefits based on 80ths. Members can normally exchange some annual pension for a larger lump sum at the rate of 1:12, i.e. every £1 of annual pension given up in exchange for £12 lump sum. HMRC limits apply.

Generally a minimum of two years membership is required to draw retirement benefits.

Age of retirement

- Normal pension age is 65 or State pension age, whichever is the later, but can be paid earlier:
- Pension benefits are payable at any age if awarded due to ill health
- Members may retire with unreduced benefits from age 55 onwards if their retirement is on the grounds of redundancy or business efficiency
- Members who have left employment may request payment of benefits from age 55 onwards, but actuarial reductions may apply where benefits come into payment before normal retirement age. Employer consent is required for members who left prior to 1 April 2014.
- Members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply
- Payment of benefits may be delayed beyond normal pension age but only up to age 75.

There are also various protections regarding membership that are linked to earlier normal retirement ages that applied in earlier versions of the scheme.

Death Benefits In service

A lump sum death grant is payable, normally equivalent to three years assumed pay. The Administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's spouse, civil partner, eligible cohabiting partner and eligible children.

After retirement

A death grant is payable if less than ten years pension has been paid and the pensioner is under age 75 at the date of death, the balance of ten years pension is paid as a lump sum. Pensions are also normally payable to the member's spouse, civil partner, eligible cohabiting partner and any eligible dependent children.

Cost of Living Increases

Career average pensions that are being built up and pensions in payment are increased annually to protect them from inflation. Pension increases are currently in line with the Consumer Prices Index (CPI). Where a member has a guaranteed minimum pension (which relates to membership during SERPS prior to 5 April 1997) some of the pension increase may be paid with the State Pension.

Leaving before pension age

Members leaving before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if their scheme membership is less than two years. Members with more than two years membership have the option to defer their benefits in the fund until normal retirement age or transfer their benefits to another pension scheme.

Further details regarding LGPS benefits can be found at: www.worcestershire.gov.uk/pensions or Email: pensions@worcestershire.gov.uk

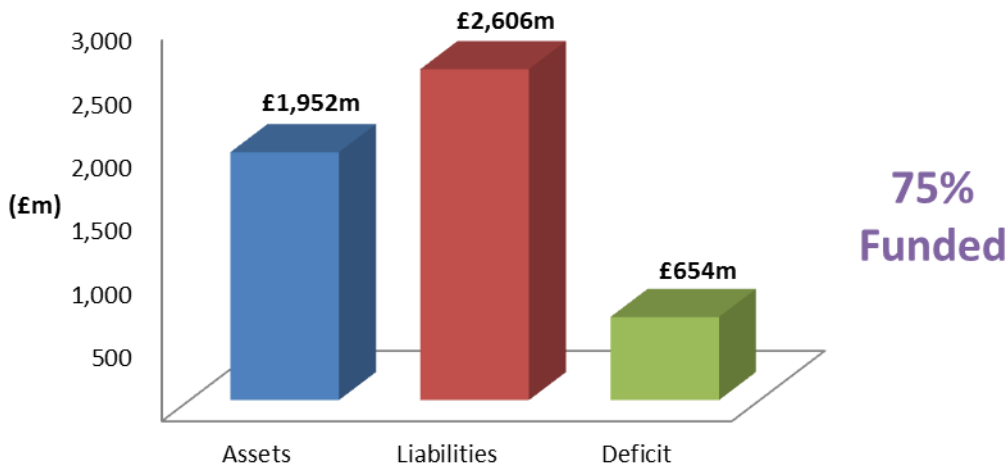
2. Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £654 million.



The valuation also showed that a common rate of contribution of 15.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £34 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.35% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 3.6% p.a. rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2016 was £3,010 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2017

3. Pension Fund Investments 2016/17

The proportion of the market value of investment assets held by the external fund managers at the year-end was:

External Fund Manager	31 March 2016		31 March 2017	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	131.2	7	136.5	5
JP Morgan Asset Management (Emerging Markets)	109.9	6	153.0	6
Capital International Ltd	179.5	9	0.0	0
Nomura Asset Management UK Ltd	287.1	15	390.4	16
Schroder Investment Management	119.1	6	163.0	7
Legal and General Asset Management	933.4	49	1,412.2	57
Green Investment Bank	34.2	2	49.4	2
Hermes	38.0	2	49.2	2
Invesco	61.0	3	66.7	3
VENN	22.8	1	22.9	1
Walton Street	4.4	0	13.6	1
WCC Managed Account	8.1	0	8.4	0
	1,928.7	100	2,465.3	100

The following investments represent more than 5% of the net assets of the scheme:

Security	Market value	% of total	Market value	% of total
	31 March 2016	fund	31 March 2017	fund
	£m		£m	
LGIM – UK Equity Index Pooled Fund	545.7	28.2	667.9	27.1
LGIM – North America Index Pooled Fund	33.7	1.7	289.3	11.7
LGIM – Europe (ex-UK) Index Pooled Fund	114.9	6.0	147.2	6.0

The Fund operates the practice of lending stock to a third party for a financial consideration.

Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietary nature in those securities.

The total amount of stock lent at the year-end was £27.8million (2016 £15.3million). Counterparty risk is managed through holding collateral at the fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £29.5million (2016 £16.2million) representing 106% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2017 (2016 £0.1million). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

Stock lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower.

There are no liabilities associated with the loaned assets.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on [to be included] 2017. These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. There are no material events that have occurred after the balance sheet date of 31st March 2017.

5. Contributions Receivable

By category:

	2015/16	2016/17
	£m	£m
Employers		
Normal contributions	45.6	46.3
Deficit recovery contributions	33.5	36.8
Augmentation contributions	3.5	2.7
Employees		
Normal contributions	21.3	21.6
Additional contributions	0.4	0.4
	104.3	107.8

By authority:

	2015/16	2016/17
	£m	£m
Worcestershire County Council	31.3	30.8
Scheduled bodies*	60.1	62.0
Community admission bodies	7.8	5.5
Transferee admission bodies	4.6	8.7
Designated bodies	0.5	0.8
	104.3	107.8

* The increase in Scheduled Bodies' contributions is mainly a result of the maintained schools converting to Academies during 2016/17. Maintained schools are included within Worcestershire County Council's contributions, whilst Academies are Scheduled bodies in the Fund.

6. Transfers in and from other Pension Funds

	2015/16	2016/17
	£m	£m
Individual transfers	5.4	8.0
	5.4	8.0

7. Benefits Payable

By category:

	2015/16	2016/17
	£m	£m
Pensions	75.0	77.3
Commutations and lump sum retirement benefits	17.1	16.0
Lump sum death benefits	1.8	2.2
	93.9	95.5

By authority:

	2015/16	2016/17
	£m	£m
Worcestershire County Council	37.8	36.1
Scheduled bodies	47.0	48.4
Admitted bodies	1.7	1.6
Community admission bodies	4.7	6.2
Transferee admission bodies	2.2	2.7
Designated bodies	0.5	0.5
	93.9	95.5

8. Payments to and on Account of Leavers

	2015/16	2016/17
	£m	£m
Individual transfers	6.1	7.0
Group transfers	1.2	0.0
	7.3	7.0

At year-end there are potential liabilities of £0.2 million in respect of individuals transferring out of the Pension Fund upon whom the fund is awaiting final decisions.

9. Administrative Expenses

	2015/16	2016/17
	£m	£m
Employee expenses	0.4	0.5
Support services	0.3	0.1
Actuarial services	0.2	0.2
Other expenses	0.3	0.2
	1.2	1.0

The audit fee for work completed by the Fund's external auditors for the year ended 31st March 2017 was £26,156 (£26,156 for the year ended 31st March 2016).

10. Management Expenses

	2015/16	2016/17
	£m	£m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	6.5	7.0
Other expenses	0.2	0.1
	6.8	7.2

10 a. Investment Management Expenses

	2015/16	2016/17
	£m	£m
Management fees	5.3	5.6
Custody fees	0.4	0.3
Transaction costs	1.0	1.2
	6.7	7.1

The £7.2m management expenses incurred in 2016/17 represent 0.29% or 29bps of the market value of the fund's assets as at 31st March 2017 (0.35% or 35bps 31st March 2016). The increase in management expenses is mainly due to the addition of pooled property investments and pooled infrastructure investments to the fund's portfolio and the increase in the Fund's equities market value resulting in an increase in investment management fees that are based on the value of assets under management. The decrease in investment management fees as a percentage of the Fund's market value is mainly due to the reduction in active management of the Fund's equities in favour of passive management combined with negotiated investment management fee reductions. No performance related fees were paid by the fund in 2016/17 or 2015/16.

The cash for the pooled property investments and pooled infrastructure investment drawdowns was transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison. The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £5.1 million to £7.2 million for 2016/17 (£5.7 million to £6.7 million 2015/16). It is important to note that the application of the guidance does not represent an actual increase in costs, nor a decrease in the Fund's resources to pay pension benefits.

11. Investment Income

	2015/16	2016/17
	£m	£m
Fixed interest securities	4.3	4.2
Equity dividends*	32.5	18.4
Pooled Property investments	0.7	4.6
Pooled Infrastructure investments	1.6	2.9
Interest on cash deposits	0.8	0.2
Securities lending	0.1	0.1
	40.0	30.4

* The reduction in equity dividends is due to the transition of North America equity investments from active management to passive management during 2016/17. The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units.

12. Taxes on Income

	2015/16	2016/17
	£m	£m
Withholding tax - equities	(1.9)	(1.0)
	(1.9)	(1.0)

13. Investments

	Market value 31 March 2016	Market Value 31 March 2017
	£m	£m
Long term Investment Assets		
LGPS Central –AFIM	0.0	0.1
Investment assets		
Fixed interest securities	119.5	130.7
Equities	679.7	678.9
Pooled investment vehicles	947.8	1,434.9
Pooled property investments	88.2	101.5
Pooled Infrastructure investments	72.2	98.6
Derivatives - futures	0.0	0.1
Derivatives - forward FX	3.1	1.2
Cash deposits	20.0	22.4
Investment income due	4.1	5.3
Amounts receivable for sales	3.8	2.2
Total investment assets	1,938.4	2,475.9
Investment liabilities		
Derivatives - futures	(0.1)	(0.2)
Derivatives - forward FX	(0.5)	(0.2)
Amounts payable for purchases	(5.0)	(4.8)
Total investment liabilities	(5.6)	(5.2)
Net investment assets	1,932.8	2,470.7

13 a: Reconciliation of movements in investments and derivatives

	Market value 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£m	£m	£m	£m	£m
-					
Long-term Investment Assets					
LGPS Central – AFIM	0.0	0.1	0.0	0.0	0.1
	0.0	0.1	0.0	0.0	0.1
Investment Assets					
Fixed interest securities	119.5	80.0	(85.5)	16.7	130.7
Equities	679.7	361.6	(534.8)	172.4	678.9
Pooled investment vehicles	947.8	360.2	(179.5)	306.4	1,434.9
Pooled Property investments	88.2	21.1	(16.1)	8.3	101.5
Pooled Infrastructure investments	72.2	27.3	(5.0)	4.1	98.6
	1,907.4	850.2	(820.9)	507.9	2,444.6
Derivative contracts:					
Futures	(0.1)	2.7	(2.9)	0.2	(0.1)
Forward currency contracts	2.6	30.7	(11.7)	(20.6)	1.0
	1,909.9	883.6	(835.5)	487.5	2,445.6
Other investment balances:					
Cash deposits	20.0			6.6	22.4
Investment income due	4.1				5.3
Amount receivable for sales of investments	3.8				2.2
Amounts payable for purchases of investments	(5.0)				(4.8)
Net investment assets	1,932.8			494.1	2,470.7

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	Market value 31 March 2015	Purchases during the year and derivative payments restated	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
	£m	£m	£m	£m	£m
Fixed interest securities	127.4	74.2	(83.8)	1.7	119.5
Equities	1,199.9	363.6	(801.5)	(82.3)	679.7
Pooled investment vehicles	623.3	954.1	(638.9)	9.3	947.8
Pooled Property investments	0.0	91.9	(5.7)	2.0	88.2
Pooled Infrastructure investments	0.0	89.7	(18.8)	1.3	72.2
	1,950.6	1,573.5	(1,548.7)	(68.0)	1,907.4
Derivative contracts:					
Futures	(0.1)	3.2	(2.7)	(0.5)	(0.1)
Forward currency contracts	(2.6)	20.5	(11.7)	(3.6)	2.6
	1,947.9	1,597.2	(1,563.1)	(72.1)	1,909.9
Other investment balances:					
Cash deposits	15.6			(1.5)	20.0
Investment income due	6.9				4.1
Amount receivable for sales of investments	2.4				3.8
Amounts payable for purchases of investments	(2.8)				(5.0)
Net investment assets	1,970.0			(73.6)	1,932.8

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as have been included in Investment Management Expenses, as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2016/17 year amounted to £1.2 million, (2015/16 £0.9 million). These transaction costs represent 0.05% or 5bps of the Market Value of the Fund's assets as at 31st March 2017 (5bps at 31st March 2016).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

Note 13 b: Analysis of Investments (excluding derivative contracts, cash and other investment balances)

	31 March 2016 £m	31 March 2017 £m
Long term Investment Assets		
LGPS Central – AFIM	0.0	0.1
	0.0	0.1
Fixed interest securities		
UK corporate quoted	8.1	8.2
Overseas public sector quoted	0.0	0.0
Overseas corporate quoted	111.4	122.5
	119.5	130.7
Equities		
UK quoted	14.2	12.5
Overseas quoted	665.5	666.4
	679.7	678.9
Pooled Investment Vehicles		
Other UK managed funds – UK equities	545.7	667.9
– Overseas equities	148.6	436.5
– Global equities	239.1	307.8
Other overseas managed funds – Overseas equities	14.4	22.7
	947.8	1,434.9
Pooled Funds - Additional Analysis		
Pooled property investments - UK	22.8	23.0
Pooled property investments - overseas	65.4	78.5
	88.2	101.5
Pooled Infrastructure investments - UK	72.2	98.6
	72.2	98.6
Derivatives - futures	0.0	0.1
Derivatives - forward FX	3.1	1.2
Cash deposits	20.0	22.4
Investment income due	4.1	5.3
Amounts receivable for sales	3.8	2.2
Total investment assets	1,938.4	2,475.9
Investment liabilities		
Derivatives - futures	(0.1)	(0.2)
Derivatives - forward FX	(0.5)	(0.2)
Amounts payable for purchases	(5.0)	(4.8)
Total investment liabilities	(5.6)	(5.2)
Net investment assets	1,932.8	2,470.7

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the fund and investment managers.

a) Futures

The fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

Type of future	Expiration	Economic Exposure Value	Market Value	Economic Exposure Value	Market Value
		£m	31 March 2016 £m	£m	31 March 2017 £m
UK gilt exchange traded	Less than one year	1.1	0.0	0.3	0.0
Overseas exchanged traded	Less than one year	9.3	0.0	29.4	0.1
Total assets			0.0		0.1

Liabilities

Type of future	Expiration	Economic Exposure Value	Market Value	Economic Exposure Value	Market Value
		£m	31 March 2016 £m	£m	31 March 2017 £m
Overseas exchanged traded	Less than one year	0.5	(0.1)	(21.3)	(0.2)
Total liabilities			(0.1)		(0.2)
Net futures			(0.1)		(0.1)

Open forward currency Contracts as at 31 March 2017

Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m
One to six months	EUR	36.5	GBP	31.4	0.1	
One to six months	USD	250.5	GBP	201.4	1.1	
One to six months	EUR	32.5	GBP	27.7		(0.1)
One to six months	GBP	0.8	EUR	0.9		0.0
One to six months	GBP	7.0	USD	0.9		(0.1)
One to six months	USD	0.8	GBP	0.6		(0.0)
					1.2	(0.2)
Net forward currency contracts at 31 March 2017						1.0
Prior year comparative:						
Open forward currency contracts at 31 March 2016					3.1	(0.5)
Net forward currency contracts at 31 March 2016						(2.6)

Analysis of Cash

	2015/16 £m	2016/17 £m
Cash		
Cash deposits	9.2	13.7
Cash instruments	10.8	8.7
	20.0	22.4

Note 14: Financial Instruments

Note 14 a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2016	31 March 2016	31 March 2016	31 March 2017	31 March 2017	31 March 2017
£m	£m	£m	£m	£m	£m
Financial assets					
119.5			Fixed interest securities	130.7	
679.7			Equities	678.9	
947.8			Pooled investment vehicles	1,434.9	
88.2			Pooled property investments	101.5	
72.2			Pooled Infrastructure investments	98.6	
0.0			Derivatives - Futures	0.1	
3.1			Derivatives - Forward FX	1.2	
	28.0		Cash		25.2
7.9			Other investment Balances	7.5	
	13.2		Current assets		9.2
	2.2		Non-current assets		1.4
1,918.4	43.4	0.0		2,453.4	35.8
Financial liabilities					
(0.1)			Derivatives - Futures	(0.2)	
(0.5)			Derivatives - Forward FX	(0.2)	
(5.0)			Other investment balances	(4.8)	
		(3.9)	Current liabilities		(3.2)
(5.6)	0.0	(3.9)		(5.2)	0.0
1,912.8	43.4	(3.9)		2,448.2	35.8

Note 14 b: Net gains and losses on financial instruments

31 March 2016		31 March 2017
£m		£m
Financial assets		
(68.0)	Fair value through profit and loss	507.9
(1.5)	Loans and receivables	6.6
Financial liabilities		
(4.1)	Fair value through profit and loss	(20.4)
(73.6)	Total	494.1

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The large increase, following on from previous decrease is a result of volatility in global equity markets since 2015/16 and the decrease in the value of Sterling resulting in an increase the value of the Fund's overseas investments when converted back to Sterling.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 14 d: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgment in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	£m
	Level 1 £m	Level 2 £m	Level 3 £m	
Fair Value Financial assets				
Financial assets at fair value through profit and loss	817.1	1,436.2	200.1	2,453.4
Loans and receivables	35.8	0.0	0.0	35.8
Total fair value financial assets	852.9	1,436.2	200.1	2,489.2
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(5.2)	0.0	(5.2)
Total fair value financial liabilities	0.0	(5.2)	0.0	(5.2)
Net fair value financial assets	852.9	1,431.0	200.1	2,484.0

Values at 31 March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	£m
	Level 1 £m	Level 2 £m	Level 3 £m	
Fair Value Financial assets				
Financial assets at fair value through profit and loss	807.1	950.9	160.4	1,918.4
Loans and receivables	43.4	0.0	0.0	43.4
Total fair value financial assets	850.5	950.9	160.4	1,961.8
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	(0.0)	(5.6)	(0.0)	(5.6)
Total fair value financial liabilities	(0.0)	(5.6)	(0.0)	(5.6)
Net fair value financial assets	850.5	945.3	160.4	1,956.2

Level 3 Investments: Further analysis

Sensitivity Analysis	Valuation range	Value as at 31 st March 2017	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	7%	101.5	108.6	94.4
Pooled Investments - Infrastructure Funds	7%	98.6	105.5	91.7
Total		200.1	214.1	186.1

Investment Movement	Property £m	Infrastructure £m
Market Value 1 st April 2016	88.2	72.2
Purchases and Payments	21.1	27.4
Sales	(15.2)	(5.1)
Unrealised gains/(losses)	7.1	2.3
Realised gains/(losses)	0.3	1.8
Market value 31st March 2017	101.5	98.6

Note 15: Nature and extent of Risks arising from Financial Instruments

In the course of every day operating, the Pension Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Pension Fund Statement of Investment principles the Fund holds equity and bond instruments in order to meet the Fund's investment objectives. The Fund's investment objectives and risk management policies are as follows;

- (1) The investment objective for the Fund is to:-
 - (a) ensure that sufficient assets are available to meet liabilities as they fall due;
 - (b) maximise the return at an acceptable level of risk.

- (2) Risk management is mostly concerned with:
 - avoiding the possibility of loss, or
 - limiting a deficiency in the underlying Fund, or
 - avoiding a contribution rate increase in the future.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

There are three main types of market risk that the Fund is exposed to as at 31 March 2017:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the administering authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to independently measure the Fund's investment returns and the Fund's absolute and relative risk for each portfolio and also the Fund as a whole. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's risk and comparisons to other LGPS Funds.

Equity risk analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's independent financial adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.4 %
UK equities	7.7 %
Overseas equities	12.8 %
UK pooled investment vehicle	7.7 %
Overseas pooled investment vehicle	12.8 %
Global pooled investment vehicle	12.2 %
Pooled property investments	5.0 %
Pooled Infrastructure investments	5.0 %

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the fund investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 13):

Asset Type	Value as at 31 March 2017 £ m	Percentage change %	Value on increase £m	Value on decrease £m
Cash and cash equivalents	22.4	0.0%	22.4	22.4
Investment portfolio assets:				
UK fixed interest securities	8.2	3.4%	8.5	7.9
Overseas fixed interest securities	122.5	3.4%	126.7	118.3
UK equities	12.5	7.7%	13.5	11.5
Overseas equities	666.4	12.8%	751.7	581.1
UK pooled investment vehicle	667.9	7.7%	719.3	616.5
Overseas pooled investment vehicle	459.2	12.8%	518.0	400.4
Global pooled investment vehicle	307.8	12.2%	345.4	270.2
Pooled property investments	101.5	5.0%	106.6	96.4
Pooled Infrastructure investments	98.6	5.0%	103.5	93.7
Net derivative assets	0.9	0.0%	0.9	0.9
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	2.2	0.0%	2.2	2.2
Amount payable for purchases	(4.8)	0.0%	(4.8)	(4.8)
Total	2,470.6		2,719.2	2,222.0

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2016	Value as at 31 March 2017
	£m	£m
Cash and cash equivalents	20.0	22.4
Cash balances	8.0	2.8
Fixed interest securities	119.5	130.7
Total	147.5	155.9

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The Council's treasury management adviser, Capita, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2017 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£m	£m	£m
Cash and cash equivalents	22.4	22.6	22.2
Cash balances	2.8	2.8	2.8
Fixed interest securities	130.7	132.0	129.4
Total change in assets available	155.9	157.4	154.4

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31	Asset value as at 31
	March 2016	March 2017
	£m	£m
Overseas quoted securities	665.5	666.4
Overseas pooled investment vehicle	163.0	459.2
Global pooled investment vehicle	239.1	307.8
Overseas pooled property investments	65.4	78.5
Total overseas assets	1,133.0	1,511.9

Overseas bonds are 100% hedged to GBP at 31 March 2017.

Currency Risk – Sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Council considers the likely volatility associated with foreign exchange rate movements to be 7.6% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.6% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2017	Change to net assets available to pay benefits	
		+ 7.6%	-7.6 %
	£m	£m	£m
Overseas quoted securities	666.4	717.0	615.8
Overseas pooled investment vehicle	459.2	494.1	424.3
Global pooled investment vehicle	307.8	331.2	284.4
Overseas pooled property investments	78.5	84.5	72.5
Total change in assets available	1,511.9	1,626.8	1,397.0

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk. Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2017 was £25.2million (31 March 2016: £28.0million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2016 £m	Balances as at 31 March 2017 £m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	0.5	0.2
BNY Mellon US Dollar Liquid Fund	AAA	5.5	4.5
BNY Mellon US Dollar	AAA	0.0	0.0
JPM liq-ster Liquidity-x	AAA	3.3	2.3
JPM liq-USD Liquidity-XDI	AAA	1.5	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	9.2	13.7
Bank current accounts			
Barclays Bank PLC	A-2	8.0	2.8
Total		28.0	25.2

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the pension fund has adequate cash resources to meet commitments.

Note 16: Current assets

	2015/16 £m	2016/17 £m
Contributions due from employer in respect of:		
Employer	6.8	5.0
Members	1.7	1.8
Magistrates Courts Bulk Transfer Payment Due		
Augmentation	3.5	1.2
Cash balances	8.0	2.8
Other Debtors	0.5	0.5
	21.2	12.0

Note 17: Non-current assets

	2015/16	2016/17
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	2.0	1.3
Augmentation	0.2	0.1
	2.2	1.4

Note 18: Current liabilities

	2015/16	2016/17
	£m	£m
Investment management expenses	(0.9)	(1.3)
Payroll and external vendors	(1.8)	(1.5)
Other expenses	(1.2)	(0.4)
	(3.9)	(3.2)

Note 19: Analysis of debtors and creditors**Analysis of debtors**

	31 March	31 March
	2016	2017
	£m	£m
Central government bodies	2.7	2.0
Other local authorities	5.8	5.6
Other entities and individuals	6.9	3.0
	15.4	10.6

Analysis of creditors

	31 March	31 March
	2016	2017
	£m	£m
Central government bodies	(0.9)	(1.3)
Other local authorities	(1.8)	(1.5)
Other entities and individuals	(1.2)	(0.4)
	(3.9)	(3.2)

20. Related Party Transactions**Worcestershire County Council**

The Worcestershire County Council Pension Fund is administered by Worcestershire County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £1.1 million in 2016/17 (2015/16: £1.1 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £29.9 million to the fund in 2016/17 (2015/16: £31.3 million).

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 25 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 5, 7, 16, 17, 18 and 19 to the accounts.

Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and HR Service Centre Manager are deemed to be key management personnel with regards to the Pension Fund. The financial value of their relationship with the fund (in accordance with IAS24) is set out below:

	2015/16	2016/17
	£000	£000
Short term benefits*	44	46
Long term/ post-retirement benefits**	194	208
	238	254

*This is the pensions element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative and Employee Representative are active members of the Fund.

21. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2017 totalled £31.7 million (31 March 2016: £44.1 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Pooled Property Investments and Pooled Infrastructure investments part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

22. Contingent assets

Eleven admitted body employers in the Worcestershire County Council Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2016/17 are as follows:

	2015/16	2016/17
	£m	£m
Contributions received	0.2	0.1
Investments purchased	0.2	0.1
Change in market value	0.0	(0.1)
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC funds at 31 March 2017 was £2.2 million, (31 March 2016 £3.0 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts but are disclosed as a note only.

24. Agency Services

The Worcestershire County Council Pension Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2015/16	2016/17
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	0.1

25. Participating Employers of the Fund at 31 March 2017

Scheduled Bodies

Worcestershire County Council	Marden Primary School Academy
Advance Trust/Vale of Evesham School	Matchborough First
Ashperton Primary School Academy	Mordiford Academy
Aspire Academy	N E W College
Astwood Bank 1st School	Newbridge Advance Trust
Barrs Court Special School & College	Nunnery Wood Academy
Bengeworth First School	Oasis Community Learning (Warndon Primary)
Bishop Perowne Academy	Our Lady of Lourdes Academy
Bredon Hill Middle	Perry Wood Prim & Nursery(Griffin Sch T)
Brockhampton Academy	Pershore Academy
Bromsgrove District Council	Prince Henry's High School
Brookfield School	Probation
Building Control	Queen Elizabeth Academy
Burghill Community Primary School	Reach Assisted Living
Burley Gate Primary	Redditch Borough Council
Canon Pyon Academy	Redditch RSA Academies Trust
Chantry Academy	Regency High School
Christopher Whitehead Academy	Regulatory Services (Broms)
ContinU Plus	Ridgeway Academy
Crabbs Cross	Riversides Academy
Diocese of Worcs MAT	Robert Owen Free School Academy
Droitwich Academy	Somers Park Academy
Dyson Perrins Academy	South Bromsgrove High School - Academy
Farfield High School	South Worcestershire Coll (Was Evesham & Malvern Hills College)
Gorse Hill Academies	South Worcestershire ICT Shared Services
Great Malvern Academy	St John's CofE Middle

Great Witley Primary	St Matthias Academy
H & W Community Council	St Michaels Primary
H & W Fire Authority	St Nicholas Owen Catholic Multi Academy Company
Hanley Castle Academy	St Pauls C of E Academy
Haybridge Academy	St Thomas Cantilupe Academy
Hereford Accademy	Stourport Academy
Hereford College of Art	Stretton Sugwas Academy
Hereford College of Technology	Suckley Academy
Hereford Marches Fed of Academies	Tenbury academy
Hereford Sixth Form College	Tenbury High School
Hereford Steiner Academy	The Coppice Primary Academy
Herefordshire (unitary)	The Vaynor Academy
HIBOS	Trinity Academy
Holmer Primary School	Tudor Grange
Honeybourne Primary Academy	Tudor Grange Academy Redditch
Ipsley CE RSA Academy	University College Worcester
John Kyrle High & 6th Form	Valuation & Community Charge Tribunal
John Masefield High School & Sixth Academy	Walkwood Middle
Joint Museum Shared Services	Waseley Hills Academy
Kidderminster College of F E	Webheath Academy
King Charles Academy	West Mercia Police & Crime Commissioner
Kingfisher Academy	West Mercia Police Authority
Kingstone High School	Whitecross Hereford
Lady Hawkins Academy	Woodfield Academy
Lickhill Academy	Woodrush Academy
Llangrove Academy	Worcester City Council
Lugwardine Academy	Worcester College of Technology
Malvern Hills District Council	Worcester Sixth Form College
Malvern the Chase Academy	Worcestershire Hub
	Wychavon District Council
	Wyre Forest District Council

Community Bodies

Brightstripe - Cultural Health CIC	Malvern Hills Conservators
Bromsgrove District Housing Trust	Malvern Hills Outdoor Education Centre
Encore Enterprises	Sports Partnership Hfds & Worcs
Festival Housing Group (formerly Partnership Housing)	VESTIA Community Trust
FCC Environment Services (UK)	Worcester Community Housing
Hereford Community Leisure Trust	Wychavon Leisure Community Association
Herefordshire Housing Association	Wyre Forest Comm. Assoc.
Hoople LTD	

Transferee Bodies

4 children	Ewyas Harold Parich Council
Action for Children	Field Studies Council
Action for Children (Malvern Hills)	Fortis Living
Addaction	Freedom Leisure
Alliance in Partnership	Heart of Worcestershire College
Alliance in Partnership AS	Herecad Enterprises Ltd
Amey PLC	Hewlett Packard ICT
Arete	Jacobs UK Ltd
Aspens	Kemerton Parish Council
ATEGI	Liberata
Aztec Watersports	Midland Heart
Babcock Training Ltd	National Youth Advocacy Service
Balfour Beatty (Living Places)	Place Partnership
Bespoke Cleaning Services	Redcliffe Catering Ltd
Brandon Trust	Redditch & Bromsgrove NHS
Bromsgrove PFI	Ringway
CAPITA (IBS Schools)	Shaw Homes Health Care
Catshill & North Marlbrook Parish Council	The Rivers Multi Academy Trust
Civica - Ex Wychavon DC Tupe	Timberdine nursing
CIVICA - WCC Hub	Worcester Community Trust
Cygnnet Foods Ltd	Wychavon Leisure (Bromsgrove)

Designated Bodies

Baxter College	Kidderminster town council
Belbroughton parish council	Ledbury Town Council
Bewdley Woen Council	Leominster Town Council
Bredon Parish Council	Malvern Town Council
Broadway Parish Council	Pershore Joint Burial Committee
Colwall Parish council	Pershore Town Council
Droitwich Town Council	Rock Parish Council
Evesham Town Council	Ross-on-Wye Town Council
Hagley Parish Council	Stourport Town Council
Hereford City Parish Council	Upton-on-Severn T C
Initial Facilities Service UK Ltd	Wigmore High & Primary
Integral UK Ltd	Wythall Parish Council
Kempsey Parish Council	

26. Critical Judgements in Applying Accounting Policies

The pension fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

27. Assumptions made about the future and any other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> • „ „ a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m • „ „ a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m • „ „ a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

5. Statement of Accounting Policies

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Worcestershire County Council's Pension Fund accounts.

1. General

The statement of Accounts summarises the fund's transaction for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take into account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Legislation

Where specific legislation regarding accounting treatment conflicts with the Council's own Accounting Policies, legislative requirements have been followed.

3. Contribution Income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

4. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

5. Investment Income

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

6. Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

7. Taxation

The fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

8. Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its Pension Fund management expenses in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Fixed Income and Equity Investment Managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the fund's independent financial adviser is included in investment management charges.

All investment management expenses are accounted for on an accruals basis.

9. Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

10. Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities Fixed interest securities are recorded at net market value based on their current yields.
 iii) Unquoted investments The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in unquoted listed partnerships are valued based on the fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

iv) Limited partnerships Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

11. Foreign Currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

12. Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

13. Cash and cash equivalents

Cash comprises demand deposits and cash equivalents, these include amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

14. Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the fund.

15. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and the relevant actuarial standards.

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2).

16. Contingent Assets

A contingent asset arises where an event has taken place that gives the Pension Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund.

Contingent assets are not recognised in the financial statements, but are disclosed in note 22 to the accounts.

17. Additional voluntary contributions

The Worcestershire County Council Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members. In 2016/17 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 23).

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The Audit Findings for Worcestershire County Council Pension Fund

Year ended 31 March 2017

July 2017

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John Gregory

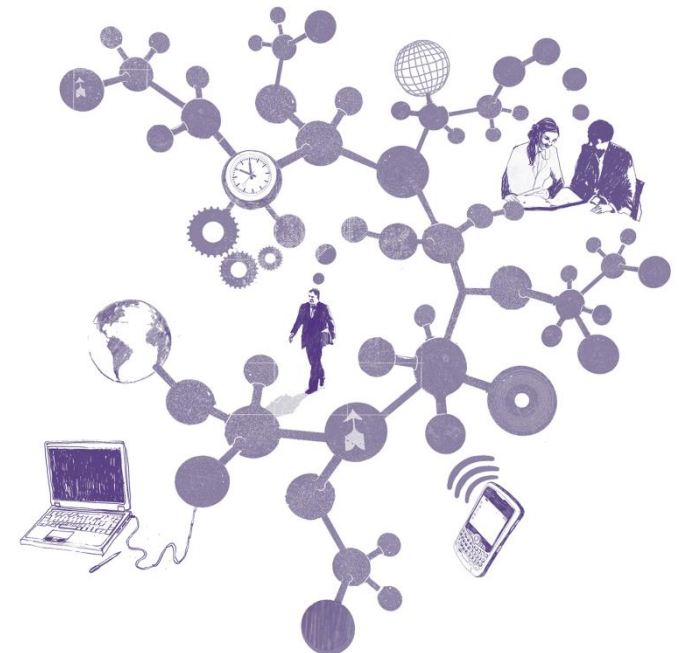
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Worcestershire County Council Pension Fund
County Hall
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21 July 2017

Dear Members of the Audit and Governance Committee

Audit Findings for Worcestershire County Council Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Worcestershire County Council Pension Fund, the Audit and Governance Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

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

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

Yours sincerely

John Gregory

Engagement lead

Chartered Accountants

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Appendices

A Audit opinion

Section 1: Executive summary

Page 50	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Worcestershire County Council Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

Introduction

In carrying out our audit, we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 24th March 2017.

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

- receipt of external confirmation from the fund manager for Green Investment bank
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of the Annual Report.

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

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Fund's reported financial position. However, we have recommended a number of adjustment to improve the presentation of the financial statements and ensure greater alignment with the Code.

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

- We have no adjusted or unadjusted misstatements to report,
- The accounts and working papers were available in line with the agreed timetable and the quality of working papers remains consistent with that received in previous years.
- As outlined above we have recommended a number of changes to the draft accounts to ensure they align more closely with the Code and the example accounts produced by CIPFA.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Controls

Roles and responsibilities

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

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

Findings

The only control weaknesses which we wish to bring to your attention are in relation to general IT controls. Further details are provided within section two of this report. However they are not considered to have a significant impact on the statement of accounts.

The way forward

Matters arising from the financial statements audit of the Fund have been discussed with the Chief Financial Officer

Acknowledgement

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

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 we reported in our audit plan, we determined overall materiality to be £19,523k (being 1% of net assets at 31 March 2016). We have considered whether this level remained appropriate during the course of the audit and have made changes to our overall materiality based on the increase to net assets reported at year end. Our overall materiality was then revised to £24,809k (being 1% of net assets in the draft 2016/17 statements).

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £124k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

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Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures.	5% of the value of expenses.
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made. Individual mis-statements will also be evaluated with reference to how material they are to the other party.	£20,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<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>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 body, 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>	<ul style="list-style-type: none"> • review of journal entry processes and controls • selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of 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>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>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>	<ul style="list-style-type: none"> • We have updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit. • We have performed walkthrough tests of the controls identified in the process. • On a sample basis we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition, we have reconciled those values to the values at 31st March with reference to known movements in the intervening period. • We reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached. • We 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. • We reviewed the competence, expertise and objectivity of management experts used. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, Completed a predictive analytical review for different types of investments. 	Our audit work has not identified any significant issues in relation to the risk identified.
Investment values – level 2 investments	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, Tested a sample of Level 2 investments to independent information from custodian/manager on units and on unit prices. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Testing of level 2 investments against public data identified some minor differences in prices between those publically available and those provided by the fund managers in their reports. The individual differences are trivial, however collectively result in a difference of £1.5m. We have concluded that the valuation of level 2 investments is materially correct, and note that this difference is a reflection of the inherent estimation uncertainties present within level 2 investments.</p>

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"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct. (Occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Controls testing over occurrence, completeness and accuracy of contributions, • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence, • Rationalised contributions received with reference to references to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.
Pensions payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Controls testing over completeness, accuracy and occurrence of benefit payments. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.

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Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Member Data</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Controls testing over annual/monthly reconciliations and verifications with individual members. • Tested a sample of changes to member data made during the year to source documentation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>As part of the audit plan we reported our interim findings on the testing we had completed on member data. An error was identified on testing of deferred members, where one of the members in the sample who was included as a deferred member should have been classed as frozen as they have less than two year's service. Since the interim work was completed officers have carried out checks on all deferred members back to 2014 when the regulations changes which has meant the error could be isolated and quantified. Only 13 employees have been identified where their category was incorrect on the system. Given the numbers involved this will not have a material impact on the membership numbers used in the valuation of the pension fund liability.</p>

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Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).




We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there is sufficient evidence to confirm that the fund remains a going concern.

Accounting policies, estimates and judgements



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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.	The policies are considered appropriate under the accounting framework in place.	 (Green)
Judgements and estimates	In previous years the fund have ascertained that because of its nature no significant accounting judgements or estimates have been made, with all judgements following the requirements set out in the Code. The Fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. Overall sufficient assurance has been provided by either the experts used for valuing the Fund, or we have been able to agree valuations to third party evidence. Last year we recommended that following the change in investment strategy to include a material balance of investments with significant unobservable inputs, greater disclosure was made to reflect the varying degrees of estimation uncertainty inherent with these types of investments. The draft financial statements, when taken as a whole, do include reference to the inherent level of estimation uncertainty attached to level 3 investments, and similarly include details of potential levels of sensitivity. The Fund should consider whether the disclosure suggested in the example accounts produced by CIFFA would provide greater clarity for the reader. 	 (Amber)




Assessment

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

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Officers have a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green)
Other accounting policies	The remainder of the Fund's Accounting policies are set out in part 5 of the financial statements. We have reviewed these against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	 (Green)

Assessment

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

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review of disclosures has identified a number of areas where these could be improved. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

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Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee. Members should note that as part of the audit plan we reported the high level review of the general IT control environment that was undertaken as part of the overall review of the internal controls system. Our work identified no material weaknesses in relation to the system in operation for 2016/17 that would adversely impact on the Council's financial statements. We did however identify a number of recommendations for improvement, which focussed on password control, user rights and staff awareness of the Information Security Policy. Of the nine recommendations made, seven have been agreed and have either been implemented or a plan is in place for implementation. For the remaining two recommendations officers have acknowledged the risk and intend to rely on compensating controls.

The matters reported above are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Misclassifications and disclosure changes

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

Adjustment type	Value	Account balance	Impact on the financial statements
1 Presentation and disclosure	Various	Various	<p>Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes have been made to the draft accounts submitted for audit.</p> <p>Examples included the need to include a date the accounts were authorised for issue, additions of sub headings to the fund accounts and amending names of some admitted and scheduled bodies so that they are consistent. This is in addition to the need to tidy up formatting and some punctuation prior to publication.</p>
2 Presentation and disclosure	£22.4m	Cash	We have identified a number of inconsistencies within the notes relating to cash. In particular between note 13b and note 15.
3 Presentation and disclosure	£107.8m	Contributions	Errors in classification have been noted with 4 bodies within note 5 and note 25. Hewlett Packcard ICT, Civia - WCC hub, and Freedom Leisure have been listed as designated bodies, and Babcock Training Ltd has been listed as a community body. All 4 bodies should be classified as transferees. The impact of this is that transferees per note 5 should be increased by £959,318, designated bodies should be decreased by £283,356 and community bodies decreased by £675,983. The overall total per all categories within the note will remain the same.
4 Presentation and disclosure	n/a	Member Data	The membership table included as part of note 1b to the accounts should be split out between those members that work for the county council and other members as per the example accounts

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Misclassifications and disclosure changes continued

Adjustment type	Value	Account balance	Impact on the financial statements
5 Presentation and disclosure	£254k	Related Party Transaction	This note includes the Cash Equivalent Transfer Value for senior officers as an approximation for an actuarial valuation. The Fund will include a note on critical accounting judgements to explain why this is an appropriate estimation.
6 Presentation and disclosure	Various	Various	The draft accounts did not include a policy on estimation uncertainty, officers have agreed to include a note in respect of the actuarial present value of promised retirement benefits.
7 Presentation and disclosure	£8.2m	Management and Administration expenses	Notes 9 and 10 on management and administration expenses within the draft accounts are not presented in line with the code. Officers believe that the current presentation is more transparent for the Fund and have agreed to provide some further narrative to explain the Fund's policy on management expenses within the accounts.

Section 3: Fees, non-audit services and independence

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01.	Executive summary
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03.	Fees, non audit services and independence
04.	Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Pension fund audit	24,963	24,963
IAS 19 fee variation	1,193	1,193
Total audit fees (excluding VAT)	26,156	26,156

Fees for other services

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

The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the PSAA regime and is consistent with that requested in prior years.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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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 confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. The table below summarises all non-audit services which were identified.

Section 4: Communication of audit matters

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04.	Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 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 Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

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

We have been appointed as the Fund'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 (<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.

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 auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

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Audit Opinion



A: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE COUNTY COUNCIL PENSION FUND

We have audited the pension fund financial statements of Worcestershire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts 2016/17 to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

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

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

xx September 2017



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AUDIT AND GOVERNANCE COMMITTEE

21 JULY 2017

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 Four 2016/17 as reported to Cabinet, including the status of individual risks. Two risks are rated as 'red':

- serious harm or death due to a failure on the part of the Council
- demographic changes lead to changed demand for services.

The changed rating of the first reflects the recent identification of issues with Children's safeguarding services. The second is a Council-wide risk but with particular significance because of the increasing older population and its impact on Council 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

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Worcestershire Hub: 01905 765765

Specific Contact Points for this report

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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

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

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



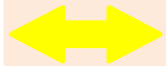
Corporate Risk 4: Serious harm or death due to a failure on the part of the Council



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

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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

SERIOUS HARM OR DEATH DUE TO A FAILURE ON THE PART OF THE COUNCIL

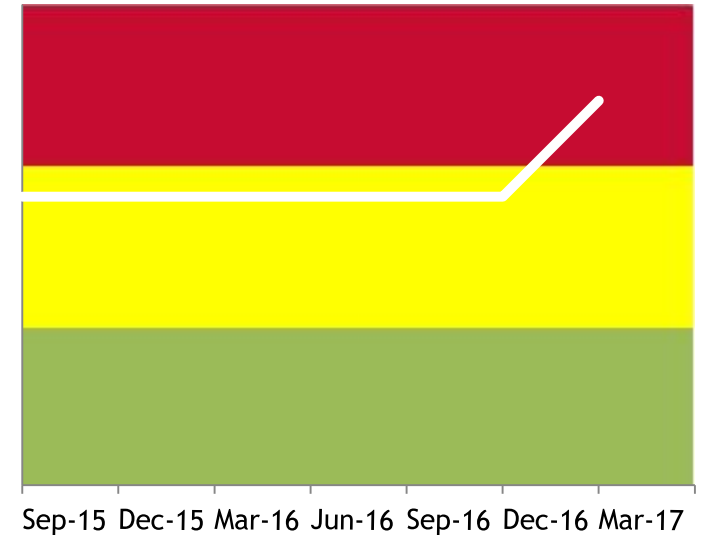
Q4 2016/17

WHY IS THE RISK RED?

- This risk has been increased to Red due to the recent identification of issues around safeguarding children.

MITIGATING ACTIONS

- The Council is implementing a detailed Improvement Plan to address the issues identified in the Ofsted report. The Plan incorporates learning from other Councils. Services across the Council are involved in supporting this work.
- Cabinet has approved £1.5m in permanent revenue funding alongside a £1m capital allocation for systems development, with additional temporary transformation funding for 2017/18 (£1.256m) and 2018/19 (£1m).
- An Improvement Board with an independent chair has been set up to oversee progress in improving services. This has cross-party involvement and Ofsted representation.
- Key posts at Group Manager level have been filled
- A number of immediate actions have been taken including:
 - Ensuring sufficient capacity within safeguarding teams to deliver an effective service
 - Increase in administrative support to free up frontline social workers to focus on safeguarding activity
 - Robust review of performance information and case file audit to ensure no child is at risk of significant harm.



WHAT NEXT?

Focus on Improvement Plan themes:

- Supporting and developing the workforce
- Improving quality of practice
- Commitment to continuous improvement
- Listening to the voice of the child
- Making the right decisions at the right time
- Delivering good outcomes for children
- Focus on permanency
- Providing early access to support

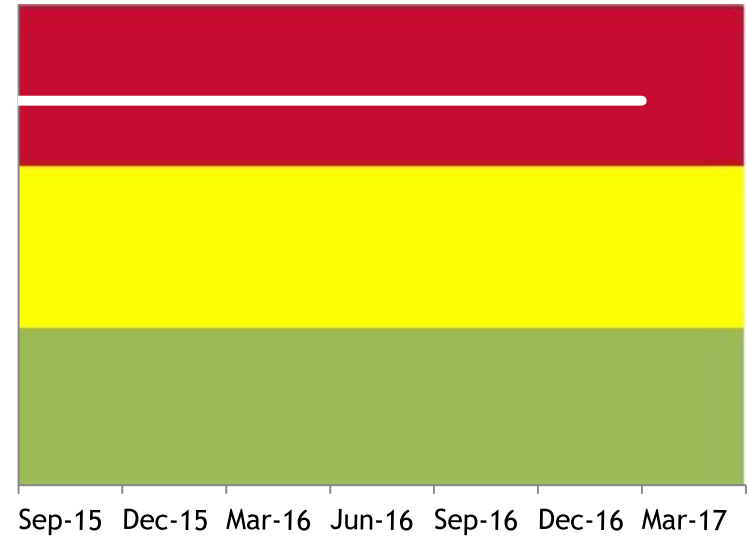
DEMOGRAPHIC CHANGES LEAD TO CHANGED DEMAND FOR SERVICES

Q4 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 taking place but at the moment the risk remains rated as 'red'.

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MITIGATING ACTIONS

- A locally driven model for predicting demographic changes has been developed.
- The Three Conversations model has been introduced by Adult Social Care. This is a new way of working designed to use community assets to help individuals achieve greater independence, rather than immediately resorting to paid for packages of care
- As part of the Service Improvement Plan, processes are being reviewed and redesigned in Children's social care to ensure that appropriate thresholds are in place so that children are safe and that demand is managed appropriately
- An approach is being developed to use "nudge" techniques in relation to waste reduction
- Other work taking place to mitigate pressures includes Connecting Families programme, All-age prevention policy, social impact bond for loneliness, redesign of Your Life Your Choice website as part of Digital Strategy development.

WHAT NEXT?

- Work to be tendered for external validation of predictive model and support in application to council services.
- Review of impact of Three Conversation model and extension to additional areas.
- Implementation of other current demand management projects e.g. launch of revised Your Life Your Choice website.

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

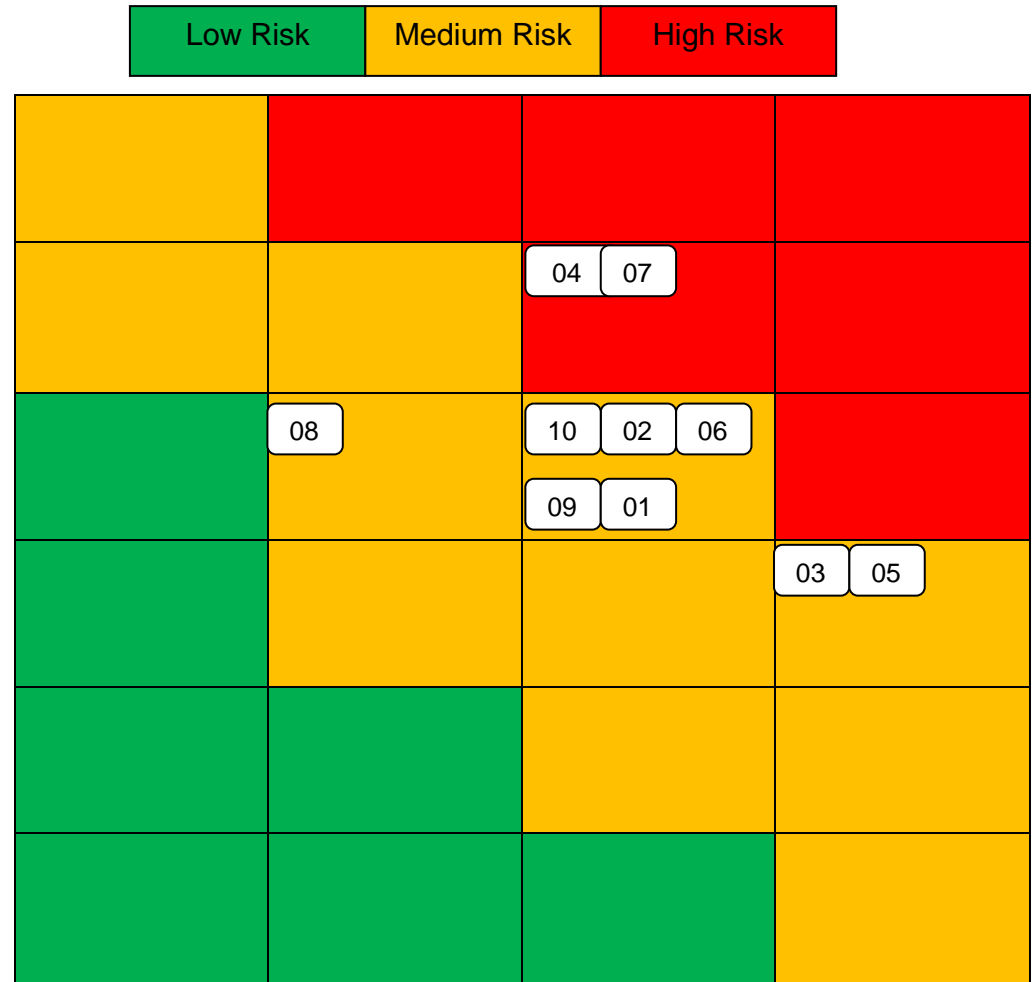
A Risk Appetite will set the levels of risk the organisation is prepared to accept in pursuit of its business objectives using the Risk Appetite Levels. The scale of Low to High refers to a willingness to accept risks.

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 – April 2017

No.	Risk Description	Assessment	Likelihood	Impact	Rank ¹
CR 01	Failure to maintain business as usual (BAU) / appropriate levels of service at the same time as transformation [To Amber Q3 2016/17]	Uncontrolled	High	Critical	20
		Current E&I 15, CFC 15, COaCH 15, DAS 15, Fin 2	Medium	Critical	15
CR 02	Failure to deliver financial savings identified in MTFP	Uncontrolled	Very High	Extreme	24
		Current E&I 15, CFC 15, COaCH 15, DAS 15, Fin 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 18, COaCH 15, DAS 15 Fin 14	Low	Extreme	18
CR 04	Serious harm or death due to a failure on the part of the Council [To Red – Q3/4 2016/17]	Uncontrolled	Very High	Extreme	24
		Current E&I 17, CFC 20, COaCH 17, DAS 18	High	Critical	20

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

No.	Risk Description	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, Fin 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 15, COaCH 15, DAS 15, PH 15, Fin 6	Medium	Critical	15
CR 07	Demographic changes lead to changed demand for Services	Uncontrolled	Very High	Critical	24
		Current E&I 15, CFC 15, 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 11, DAS 10	Medium	Substantial	11

No.	Risk Description	Assessment	Likelihood	Impact	Rank ¹
CR 09	Ineffective emergency response arrangements	Uncontrolled	High	Critical	20
		Current E&I 15, CFC 11, COaCH 11, DAS 11, PH 15	Medium	Critical	15
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 15, COaCH 15, DAS 14, PH 11, Fin 6	Medium	Critical	15

AUDIT AND GOVERNANCE COMMITTEE 21 JULY 2017

INTERNAL AUDIT ANNUAL REPORT 2016/17

Recommendations

- 1. The Chief Financial Officer recommends that the Internal Audit Annual Report 2016/17 set out in the Appendix is endorsed.**

Background

2. Internal Audit is required by professional standards to provide a written annual report. The content of the report is prescribed by mandatory codes of practice which specifically require the report to provide an opinion on the overall adequacy and effectiveness of the Authority's governance, risk and control framework.
3. The Annual Internal Audit Report is attached for consideration by the Committee. It summarises all audits undertaken during the year, some of which have been included in previous reports to the Committee and provides an opinion on the overall opinion on the Council's system of internal control. It also gives information on the overall effectiveness of the service.
4. Internal Audit would like to record their thanks to Officers and Members for their support and co-operation during the year.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix - Internal Audit Annual Report 2016/17

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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Internal Audit Annual Report 2016/17

“Providing assurance on the management of risks”

Internal Audit Annual Report 2016/17

“Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2016/17 and as required by the Accounts and Audit Regulations 2015 gives an overall opinion of the Authority’s control environment that operated during 2016/17.

Summary Opinion

Based upon the results of work undertaken during the year my opinion is that the Authority’s control environment provides **moderate** assurance that the significant risks facing the Authority are addressed.

Context

This report outlines the work undertaken by the Internal Audit service for 2016/17.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. On behalf of the Council, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Internal Audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement of conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The primary role of audit is to provide assurance to the organisation (Directors, Heads of Service, managers and the Audit and Governance Committee) and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant business risks. The service helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council’s control environment which feeds into the Annual Governance Statement.

Internal audit work during 2016/17

The underlying principle to the 2016/17 plan was risk and accordingly audits were only completed in areas that represent an '*in year risk*'.

The methodology adopted in preparing the 2016/17 audit plan, and the plan itself, were approved by the Audit and Governance Committee on 21 July 2016.

Since the original plan was approved a number of variations to the plan have proved necessary additional work has been undertaken and some planned audits were no longer required. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. The net effect is that although the work undertaken during the year was different to that anticipated 12 months ago, I am pleased to report that in terms of the number of jobs completed, 93% of the plan was achieved subject to management responses being finalised and agreed for outstanding draft reports.

Each final report includes a detailed action plan that has been agreed with the relevant manager. These plans specify the manager responsible for implementing each action and a target implementation date.

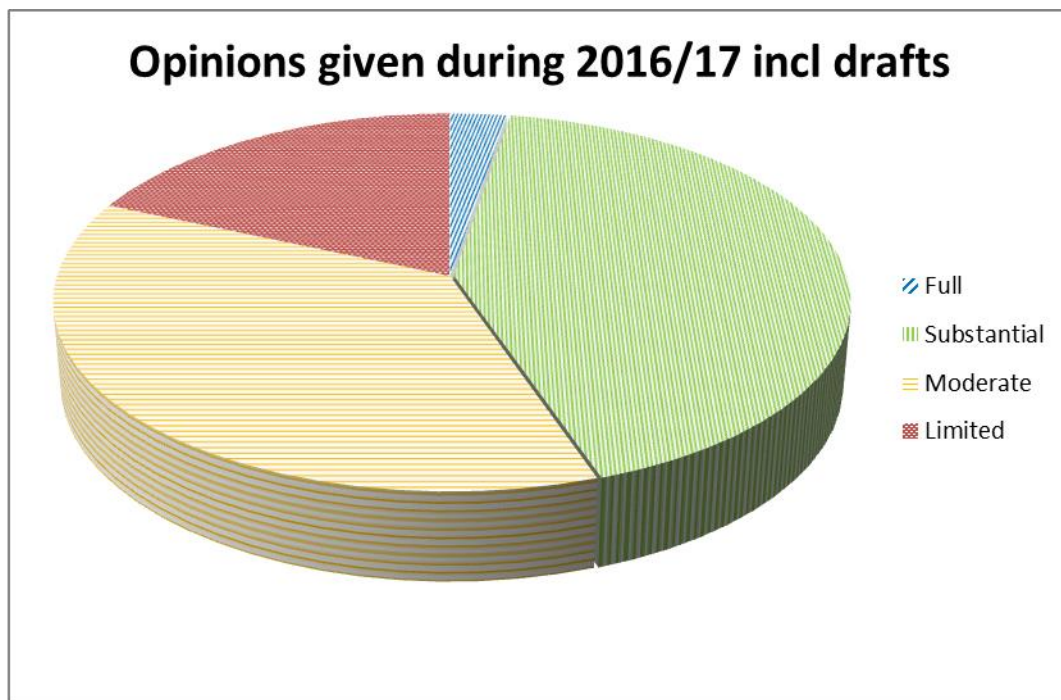
Summary of assurance work

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 that controls provide Limited, Moderate, Substantial or Full assurance that significant risks are being managed. The opinion reflects both the design of the control environment and the operation of controls. The lowest category, Limited, is a negative view whilst the others are all positive. A small number of "limited" opinions are to be expected each year especially as the audit planning processes and resources means that increasingly only those areas with a high degree of change or risk are included in the plan. The individual opinions given during the year form the basis of the overall annual opinion. The Audit and Governance Committee has received regular reports during the year summarising audits undertaken.

As shown in the following chart the results of a majority of this year's audits are positive. However, in total seven audits have resulted in a limited opinion. Three of these audits (IT – Infrastructure, IT – Access Controls and Fort Royal School) have previously been reported to the Committee. One audit, Adults Case Files Reviewing Process has been finalised since the previous meeting of the Committee and a summary of the key issues arising is given in Appendix B. There are currently 3 draft reports with a limited opinion, Malvern Link and Foregate Street, Bromsgrove Rail and Visits to Adult Social Care Establishments. These may be subject to change and will be reported to the Committee when they have been finalised.

All of the final audits with a limited opinion have been considered by the Strategic Leadership Team and those in draft will be reported once finalised.

Since the last report to Committee one additional audit, Children's Case File Recording, has been agreed with the Chief Financial Officer for deferral from the 2016/17 plan because of the Ofsted inspection.

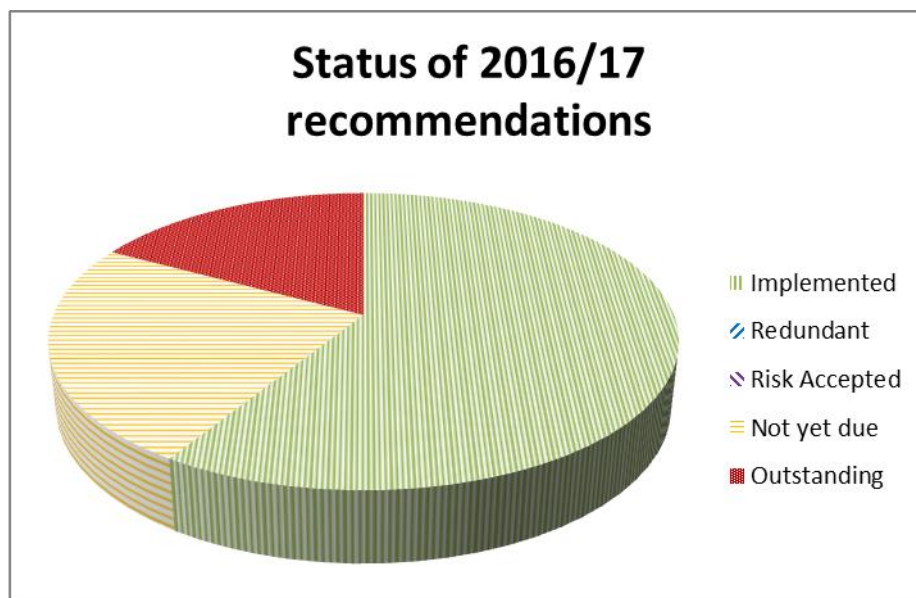


A full list of the assurance work completed during the year is given in Appendix A, together with a list of those final audits completed since the last report to Committee and which the Council will consider for publication.

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.

During the year 180 recommendations were made, 34 of which are still draft, to address weaknesses in control which would otherwise not have been identified. As shown in the following chart and in Appendix C progress has been made in implementing the recommendations made during 2016/17 but unsurprisingly many recommendations made during the year have not yet reached their agreed implementation date. Of the 9 fundamental recommendations made during the year, all but 2 have been implemented.

Some responses are still awaited to requests for confirmation that recommendations have been implemented so the final picture may change.



In addition to recommendations made during 2016/17 there are 110 recommendations made in 2015/16 that were due to be implemented 14 of which are overdue as shown in Appendix D. 2 of these outstanding recommendations are fundamental but these audits are due to be followed up in 2017/18.

Summary of non-assurance work

Special Investigations

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 were needed during the year. A summary of the significant issues arising from completed investigations, all of which have previously been reported to the Committee, are summarised 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.
- The Council referred an allegation of a Company fraudulently claiming grant funding from the Council to the Police earlier in the year. This case has been deemed by the Crown Prosecution Service as having insufficient evidence to prosecute and this decision is currently being appealed.

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 year therefore the service continued to provide consultancy input into a number of topics. The following advisory work has been provided since the last report to the Committee:

- Use of Consultants – Internal Audit has provided advice on the controls regarding the monitoring of consultant’s expenditure.
- 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.
- E-Market Place (Your Life Your Choice) - advice has been focused around the development of the system to include Children’s Services including attendance at Board meetings.
- Libraries – advice regarding production and implementation of cash handling procedures.

A wide range of advisory work was provided earlier in the year and has previously been reported to the Committee, including:

- Economy and Infrastructure – advisory input into development of project operating model.
- Procurement – Internal Audit attended meetings of the Procurement Board and provided advice and guidance as required.
- Transport contracts – advice regarding the changes to procurement process.
- Pre-paid cards – Advice regarding extending the use of pre – paid cards.
- Hive Imprest account.
- Councillors’ Divisional Fund advice regarding accounting arrangements.

Certification

Audit has traditionally carried out a small amount of work in relation to the certification of accounts for miscellaneous County Council related funds and is required to certify a small number of grants. In total 8 accounts were cleared satisfactorily during the year.

Effectiveness

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback.

When the standards were first introduced a number of actions were identified to improve compliance. These actions have all been completed and a self-assessment against the standards, which has been shared with officers, was completed during 2014/15 which shows we fully comply with the standards. Processes have not changed significantly since that was done but the self-assessment is currently being refreshed to reflect the creation of the shared service with Worcestershire and the introduction of revised standards from April 2017. As required by the standards,

compliance will need to be confirmed by an external assessment which we are aiming to complete in the second half of this year.

Internal audit processes are reviewed annually by external assessors as part of our ISO 9001 accreditation. This inspection provides independent assurance that processes outlined in the audit manual (which is based on PSIAS) are being followed. The last accreditation visit proved to be very successful with no non-conformances identified. Internal audit therefore continues to be registered under this exacting standard.

In accordance with best practice there is a rigorous internal review by senior staff of all work undertaken and the results feed into the staff appraisal process.

Following most audits a “post audit questionnaire” is issued to the relevant managers asking for their views on the conduct of the audit. The questionnaire includes a range of questions covering the audit approach, reporting format, etc. A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to interpret surveys.

The post audit questionnaire responses returned continue to be good with the average score from all surveys returned during 2016/17 being 4.63 out of a maximum of five, and a number of positive comments and compliments about the service provided have been received, including:

- The Auditor was extremely helpful, explained the purpose of the review and the process. It was very thorough. He had obviously read in detail the relevant statutory requirements and queried issues when appropriate. This gave the audit credence and standing and it felt as though it was a worthwhile task rather than a paper exercise.
- The auditor was very helpful and professional
- The auditor was prepared to consider the context of the school and offer valuable advice.
- It was a positive experience.
- The length of time between the initial contact and the audit was a realistic time but not too long and the length of time between the audit and the report were very short so we received the report quickly.
- Having an auditor that is familiar with the WCC systems and procedures speeds the audit process up. If we had been allocated someone less familiar with the WCC processes it would have been less efficient.
- The pragmatic and constructive approach of the auditor.
- The Auditor was clear and gave us good advice that we have never had from our own organisation.
- Very calm and supportive atmosphere.
- Professional, supportive and clear approach.
- We were accurately advised about the theme of the audit, how many auditors would be visiting the site and the likely duration of the visit and so were able to free up a room and make staff available on the day to answer any questions and provide documentation required.
- Professionalism and good technical understanding.

- The Auditor was very approachable and I felt that my views were listened to and taken into consideration.

These comments are consistent with the comments received across all clients which include:

- Very professional and the Auditor took on board our comments and revised the recommendations accordingly.
- The audit was conducted very professionally. Enables clear discussion through the whole process.
- The face to face contact with the audit staff adds value and we benefit from having auditors who understand and have an interest in our business.
- The work was undertaken efficiently and was appropriate to the task. Audit team I have dealt with have always been professional and friendly.
- It was very clearly laid out what was expected from us from the outset which made it easy for us to comply with the review. We also had plenty of notice to ensure we had all the information to hand.
- I found that the report and meeting with the lead auditor was focussed upon suggestions around service improvement. This meant that the focus was a positive rather than a negative.
- The audit was conducted in an open and transparent way, with regular communication, and a real sense that our information was taken on board and understood.

It is clearly important for any audit service to keep abreast of best professional practice. The audit service is fortunate in having strong links with colleagues both within the Midlands and nationally. The Service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional support. At a regional level there are networking opportunities for auditors specialising in adult social care, fraud and police. As well as good opportunities for continuing professional development and sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

The Authority can be confident that a best practice quality internal audit service continues to be provided.

Opinion

It is the responsibility of the County Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls.

During the year the Council’s services for children in need of help and protection, children looked after and children leaving care underwent an Ofsted inspection. Ofsted judged that in overall terms services were inadequate. The Council has prepared an improvement plan to address the issues highlighted and a Service Improvement Board has been established to oversee its implementation.

In assessing the level of assurance to be given, I have taken into account:

- all audits undertaken during the year;
- any follow-up action taken in respect of audits from previous periods;
- any fundamental recommendations not accepted by management and the consequent risks;
- anticipated outcome from audits currently in draft;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in the Council’s systems; and
- matters arising from previous reports to the Audit and Governance Committee.

Internal Audit place assurance on Liberata’s internal audit service (Audit West) for the review of the design and operation of key controls on the HR, Payroll and Finance transactional processes. The Head of Audit West has stated that “Based on the work carried out it is my opinion that at the time of the audit work the internal control framework and systems to manage risk were reasonable.”

Some significant issues have arisen during the year from internal audit work on non-financial systems some of which relate to important parts of the organisation but no limited opinions have been given on finance related topics.

Action plans have been agreed with the relevant managers to address the weaknesses identified and it is clearly important that the issues identified during the year are addressed. On this basis with the exception of the matters relating to Children’s Services outlined above my opinion is that the Authority’s control environment provides moderate assurance that the significant risks facing the Authority are addressed:

	Strength of control framework & operation of controls
Full	Strong
Substantial	Good
Moderate	Adequate
Limited	Weak

G Rollason
Head of Internal Audit
12 July 2017

Appendix A: Summary of audits completed during the year. ¹

Audit		Opinion on level of assurance provided by controls
	Adult Services	
1)	Adults - Care Plan Review	Substantial
2)	Adults Case Files	Limited
3)	Adults Commissioning and Placement Process	Substantial
4)	Adults Financial Assessments	Substantial
5)	CQC Home Closures	Moderate
6)	Adults Safeguarding	Substantial
7)	Visits to ASC Establishments #	Limited
8)	Section 117 #	Moderate
	Economy and Infrastructure	
9)	Permits/ Access to Highway	Substantial
10)	Section 106 Agreements	Moderate
11)	Economic Development	Substantial
12)	Transport Infrastructure Funding	Moderate
13)	Malvern Link and Foregate #	Limited
14)	Bromsgrove Rail #	Limited
	Children, Families and Communities	
15)	Placements in Residential Care	Moderate
16)	Connecting Families	Moderate
17)	Learning & Achievement	Substantial
18)	Schools Themed Audit – Carry Forward Balances	Substantial
19)	Children's Recovery Plan	Full
20)	Children's Edge of Care Programme	Moderate
21)	School Visits - St James	Moderate
22)	School Visits - Fort Royal	Limited
23)	School Visits - Belbroughton	Substantial
24)	School Visits - The Forge PRU	Moderate
25)	School Visits - St Catherine's CE Primary School	Substantial
	Commercial & Change	
26)	Use of Consultants	Substantial
27)	ICT Infrastructure	Limited
28)	Access Controls	Limited
29)	IT Commissioning	Moderate
30)	Information Management #	Moderate

Audit		Opinion on level of assurance provided by controls
31)	Business Continuity #	Substantial
	Finance	
32)	Treasury Management	Substantial
33)	Financial and Commercial Management skills	Substantial
34)	Capital Expenditure	Moderate
35)	Creditors	Moderate
36)	Main Financials #	Moderate
	IEWM	
37)	Improvement and Efficiency West Midlands	Substantial
	Pension Fund	
38)	Pensions Investment Management	Substantial

Denotes those audits where the draft report has been issued

1 Note that some of these audits started in 2015/16

The following final reports completed since the last meeting will be published following consideration 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.

- Adults Case Files
- CQC Home Closures
- Permits/ Access to Highway
- School Visits – St Catherine’s
- Use of Consultants
- Capital Expenditure
- Economic Development
- Children’s Edge of Care Programme
- IT Commissioning
- Creditors

Published reports can be accessed by the following link:

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

The following audits are still in progress and are prioritised for completion in 2017/18:

- IT – Projects and Programmes
- IT – Recovery Arrangements
- IT – Software Licencing
- Payroll
- Trading Standards

Appendix B: Summary of Limited Assurance Audits Not Previously Reported to the Committee

Adults Case Files

The audit reviewed the case file audit process within Adult Services, the point of focus being:

- The quality of data recording and the standard of case notes.
- Current procedures ensure compliance with recording standards/processes.

Key concerns identified at the time of the audit were:

- There was no requirement for case notes to be reviewed as part of the case file audit process.
- The performance indicator relating to the number of case file audits completed was below target.
- There was a lack of consistency in the way case file audits are completed and rated.
- Information held on a service user's case file is not always sufficiently detailed to enable an up to date picture of their current situation to be established.

A positive responses has been received to the report with an action plan for implementation of the recommendations made, agreed action dates and responsible officers.

Appendix C: Status of Recommendations Made in the Period 1 April 2016 to 31 March 2017

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Adults - Care Plan Review	1	0	0	1	0	0
	Adults Case Files	6	0	0	3	0	3
	Adults Commissioning and Placement Process	1	0	0	0	0	1
	Adults Financial Assessments	1	0	0	1	0	0
	CQC Home Closures	4	0	0	4	0	0
	Adults Safeguarding	1	0	0	1	0	0
Economy and Infrastructure							
	Permits/ Access to Highway	4	0	0	2	2	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Economic Development	3	0	0	3	0	0
	Transport Infrastructure Funding	6	0	0	5	0	1
	Section 106 Agreements	6	0	0	0	6	0
Children, Families and Communities							
	Placements in Residential Care	8	0	0	7	0	1
	Connecting Families	5	0	0	0	1	4
	Learning & Achievement	1	0	0	1	0	0
	Children's Edge of Care Programme	3	0	0	3	0	0
	School Visits – St James	8	0	0	8	0	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	School Visits - Fort Royal	13	0	0	12	0	1
	School Visits - Belbroughton	5	0	0	5	0	0
	School Visits - The Forge PRU	6	0	0	1	0	5
	School Visits - St Catherine's Primary	8	0	0	7	0	1
	School Themed Audit – Carry Forward Balances	2	0	0	2	0	0
Commercial & Change							
	Use of Consultants	3	0	0	0	3	0
	ICT Infrastructure	16	0	0	7	7	2
	Access Controls	8	0	0	5	1	2

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	IT Commissioning	2	0	0	2	0	0
Finance							
	Financial and Commercial Management skills	3	0	0	0	2	1
	Capital Expenditure	8	0	0	0	8	0
	Treasury Management	3	0	0	3	0	0
	Creditors	5	0	0	0	5	0
IEWM							
	Improvement and Efficiency West Midlands	5	0	0	2	0	3
Pension Fund							
	Pensions Investment Management	1	0	0	1	0	0
Total		146	0	0	86	35	25

Status of Fundamental Recommendations Made in the Period 1 April 2016 to 31 March 2017

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Adults Case File	2	0	0	1	0	1
Children, Families and Communities							
	School Visits - St James	1	0	0	1	0	0
	School Visits - Fort Royal	2	0	0	2	0	0
	School Visits - The Forge PRU	2	0	0	1	0	1
Commercial & Change							
	ICT Infrastructure	1	0	0	1	0	0
	Access Controls	1	0	0	0	1	0
Total		9	0	0	6	1	2

Appendix D: Outstanding 2015/16 Recommendations due to be implemented in 2016/17.

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Commissioning (Health)	5	0	0	5	0	0
	Direct Payments Adults	7	0	0	7	0	0
	Care Act Post Implementation	1	0	0	1	0	0
Economy and Infrastructure							
	Highways Customer and Community	3	0	0	2	1	0
	Flood Management	3	0	0	1	0	2
	Highways Maintenance Contract	2	0	0	2	0	0
Children, Families and Communities							

	Audit	Number of Recommendations					
		Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	SEN(D) Transport	5	0	0	4	0	1
	Foster Payments	6	0	0	5	0	1
	Foster Carers - the Foster Carer Journey	4	0	0	4	0	0
	Worcestershire Schools Budgetary Control	6	0	0	6	0	0
	Worcestershire Schools Staffing	1	0	0	1	0	0
	Direct Payments - Children	9	0	0	4	0	5
	Child Academic Improvement in Care Homes	10	0	0	10	0	0
Commercial & Change							
	Job Evaluation	2	0	0	0	2	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Use of Consultants	20	0	0	20	0	0
	Business Ownership of Systems and Assets	2	0	0	1	0	1
Finance							
	Transactional HR, Payroll & Finance Contract: Contract Management	6	0	0	6	0	0
	Purchase Orders-Payments	5	0	0	5	0	0
	Payroll	4	0	0	3	0	1
	Feeder systems	2	0	0	2	0	0
Pension Fund							
	Pensions Administration	3	0	0	1	0	2

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Pensions Investments	2	0	0	2	0	0
	Pensions Governance	2	0	0	1	0	1
Total		110	0	0	93	3	14

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AUDIT AND GOVERNANCE COMMITTEE

21 JULY 2017

INTERNAL AUDIT RISK ASSESSMENT, PLAN AND CHARTER 2017/18

Recommendations

- 1. The Chief Financial Officer recommends that the following documents attached at Appendix 1 and 2 be approved:**
 - a) the Internal Audit Strategy 2017/18; and**
 - b) the Internal Audit Charter.**

Background

2. The Council has a duty to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account relevant auditing standards.
3. The role of internal audit is primarily to provide reasonable assurance to the organisation and ultimately the taxpayers that the Council maintains an effective control environment that enables them to manage its significant business risks. Internal Audit does this **by providing risk-based and objective assurance, advice and insight**. In addition to providing assurance the audit service also undertakes consultancy and advisory work designed to add value and offer insights that will improve the effectiveness of risk management, control and governance processes e.g. acting as a critical friend when process changes are being developed.
4. To ensure the best use of limited audit resources audit work needs to be carefully planned. In accordance with best practice the Committee's role is to review and approve the annual internal audit work plan. The plan is developed in consultation with senior managers and takes account of the organisation's aims, strategies, key objectives, associated risks, and risk management processes (as required by internal audit standards). It also takes into account those topics which have not recently been audited or which feature in the corporate risk register or which, when last audited, received a low opinion. This year more care has been taken to more explicitly link the internal audit plan with critical risks.
5. Based upon the discussions to date and our professional judgement an indicative priority and an estimated number of days has been allocated to each potential topic. This takes into account a range of factors including: when the topic was last audited, complexity of the topic, and the level of change. The list of potential topics arising from the planning process is included in the attached audit strategy document (**Appendix 1**) together with those topics we are unable to cover during the year based on existing level of resources. The aim is to give a high-level

overview of audit areas. The Committee will note that whilst we are able to cover key aspects of very high risk areas, these and other risks are not covered comprehensively. The Committee is able to accept a plan on this basis, provided this matches its “risk appetite” for independent assurance, also recognising that management have the prime accountability for managing processes and risks (and therefore assurances can be obtained directly from them where necessary).

6. Good practice requires us to recognise that the plan should be responsive to changes in risks during the year and will therefore be reviewed at intervals throughout the year to ensure it remains relevant.

7. The Internal Audit function is governed by its Audit Charter, which is a requirement of the Public Sector Internal Audit Standards and sets out the purpose, authority and responsibility of internal audit. As the Committee will appreciate, it has to be formally agreed and approved by the organisation and periodically reviewed. The Charter establishes the internal audit activity’s position within the organisation, including the nature of the service’s functional reporting relationship; authorises access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities. The current Audit Charter was last considered by the Committee in 2016 and a number of minor changes to the Charter are now required to reflect recent changes to professional standards and an updated version of the Charter is attached (**Appendix 2**) for approval by the Committee. Changes are not significant but:

- Highlight the importance of having an audit plan that is explicitly linked to the strategy, objectives and key risks of the organisation and the importance that audit should offer future oriented assurance, advice and insight to add value to the organisation
- Reflects the new Mission of internal audit as set out in the standards and the underpinning core principles of an effective audit service.

Contact Points

County Council Contact Points

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Worcestershire Hub: 01905 765765

Specific Contact Points for this report

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Email: spearce@worcestershire.gov.uk

Supporting Information

- Appendix 1- Internal Audit Strategy 2017/18
- Appendix 2- Internal Audit Charter

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.



Internal Audit Strategy 2017/18

“Providing assurance on the management of risks”

Internal Audit Strategy 2017/2018

“Providing assurance on the management of risks”

This document sets out the Internal Audit Strategy 2017/2018 for Worcestershire County Council. These services are provided by the Risk and Assurance Service of Warwickshire County Council under an administrative delegation of internal audit functions from Worcestershire to Warwickshire. This document complements the Audit Charter and the formal agreement with Warwickshire. The Chief Risk and Assurance Manager of Warwickshire is the Council’s designated Head of Internal Audit.

The Role of Internal Audit

All organisations face risks in every aspect of their work: policy making, decision taking, action and implementation, regulation and spending, and making the most of their opportunities. The different types of risk are varied and commonly include financial risks, IT risks, supply chain failure, physical risks to people, and damage to the organisation’s reputation. The key to the Council’s success is to manage these risks effectively.

The Council has a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 state that a local authority is responsible for ensuring that its financial and operational management is effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk. The Regulations require accounting systems to include measures to ensure that risk is appropriately managed.



The requirement for an internal audit function is also contained in the Regulations which require the Authority to:

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

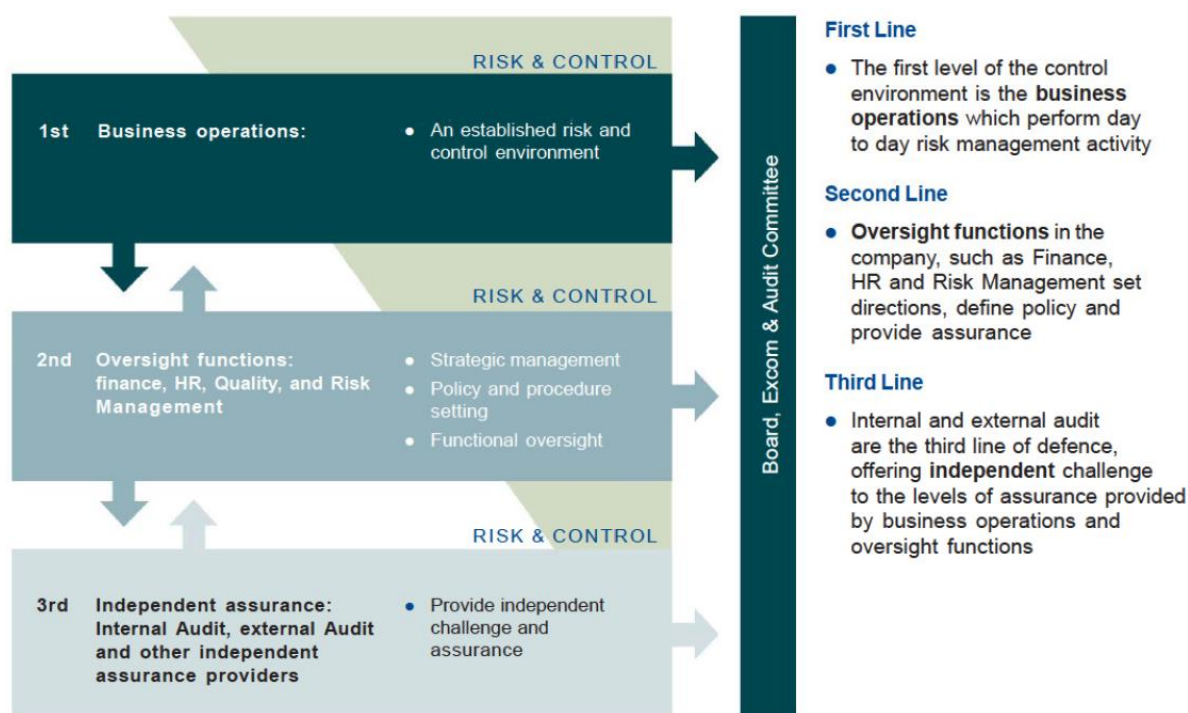
The Council has delegated its responsibilities for internal audit to the Chief Financial Officer.

Definition of Internal Auditing

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The key word in the definition is assurance, the role of audit is not to identify or investigate alleged irregularities it is to provide assurance to the organisation (managers, heads of services and the Audit and Governance Committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. We do this by **providing risk-based and objective assurance, advice and insight**. The assurance work culminates in an annual opinion on the adequacy of the Authority’s control environment which feeds into the Annual Governance Statement.

Different parts and levels of an organisation play different roles in managing risk, and the interplay between them determines how effective the organisation as a whole is in dealing with risk. The Institute of Internal Auditors uses a three lines of defence model to explain Internal Audit’s unique role in providing assurance about the controls in place to manage risk:



The management of risks is the responsibility of every manager. Sitting outside the processes of the first two lines of defence, audit’s main roles are to ensure that the first two lines of defence are operating effectively and advise how they could be

improved. Blurring audit's role by undertaking roles that are properly the responsibility of the first or second line of defence should be avoided.

We develop and then deliver a programme of internal audits to provide independent reasonable assurance to senior management and members that significant risks are being addressed. To do this, we will evaluate the quality of risk management processes, systems of financial and management control and governance processes and report this directly and independently to the most senior level of management. In accordance with regulatory requirements most individual assurance assignments are undertaken using the risk based systems audit approach and are not usually designed to identify potential frauds.

We give an opinion on how much assurance systems give that significant risks are addressed. We use four categories of opinion: Full, Substantial, Moderate and Limited assurance.

A report, incorporating an agreed action plan, will usually be issued for every audit. The results of audits are also reported to the Council's Audit and Governance Committee. To assist managers in addressing areas for improvement, recommendations are classified as: Fundamental, Significant and Merits Attention

Vision, purpose and values

A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

As a modern effective risk and assurance service we:

- Act as a catalyst for improvement at the heart of the organisation
- Influence and promote the ethics, behaviour and standards of the organisation
- Develop a risk aware culture that enables customers to make informed decisions
- Are forward looking
- Continually improve the quality of our services

A key driver of this strategy is the need to meet all our customer's needs. Our customers will continue to be affected by a variety of local and national issues:

- Funding pressures faced by local government;
- Increased growth in partnerships, for example with health and the private sector;
- Ever increasing use of technology to deliver services;
- Flexible working arrangements to make more effective use of accommodation;
- The introduction of new ways for customers and the public to access services; and
- Pressure to reduce the cost of administrative / support functions while improving quality / effectiveness.

These, and other developments, will mean increased pressure on the service to review existing systems and provide advice on new and complex initiatives within reducing resources. To respond to the demands on us we will:

- Continue to develop our staff to ensure we are fully equipped to respond to our customer's demands.
- Continue to invest in modern technology to improve efficiency and effectiveness.
- Add value and make best use of our resources by focussing on key risks facing our customers.
- Increasingly work in partnership with clients to improve controls and performance generally. We must add value and help deliver innovations in service delivery.
- Continue to buy in specialist help – particularly in IT.

Services

In addition to undertaking audits the Service is able to support the organisation by also providing the following services:

Consultancy / Advice

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. The service will act as a critical friend. Particular emphasis is put on project governance and process design.

Our knowledge of the management of risk enables us to **challenge** current practice, **champion** best practice and be a **catalyst** for improvement, so that the Council as a whole achieves its strategic objectives.

So, for example if a line manager is concerned about a particular area of his/her responsibility, working with us could help to identify improvements. Or perhaps a major new project is being undertaken - we can help to ensure that project risks are clearly identified and that controls are put in place to manage them.

Challenge

Champion

**Catalyst for
improvement**

It is more constructive for us to advise on design of processes during the currency of a change project rather than identify problems after the event when often it is too late to make a difference - timely advice adds more value than untimely criticism.

Irregularities

As a publicly funded organisation the Council must be able to demonstrate the proper use of public funds. It is the responsibility of every manager to have systems in place to prevent and detect irregularities. However, if an irregularity is identified or

suspected managers are required to notify the Service and may need professional support to investigate the matter.

All significant investigations will be undertaken by the Service but more minor matters will be referred back to the service manager to progress with support from the audit team. The decision on which cases will be investigated will be made by the Head of Internal Audit in conjunction with the Chief Financial Officer.

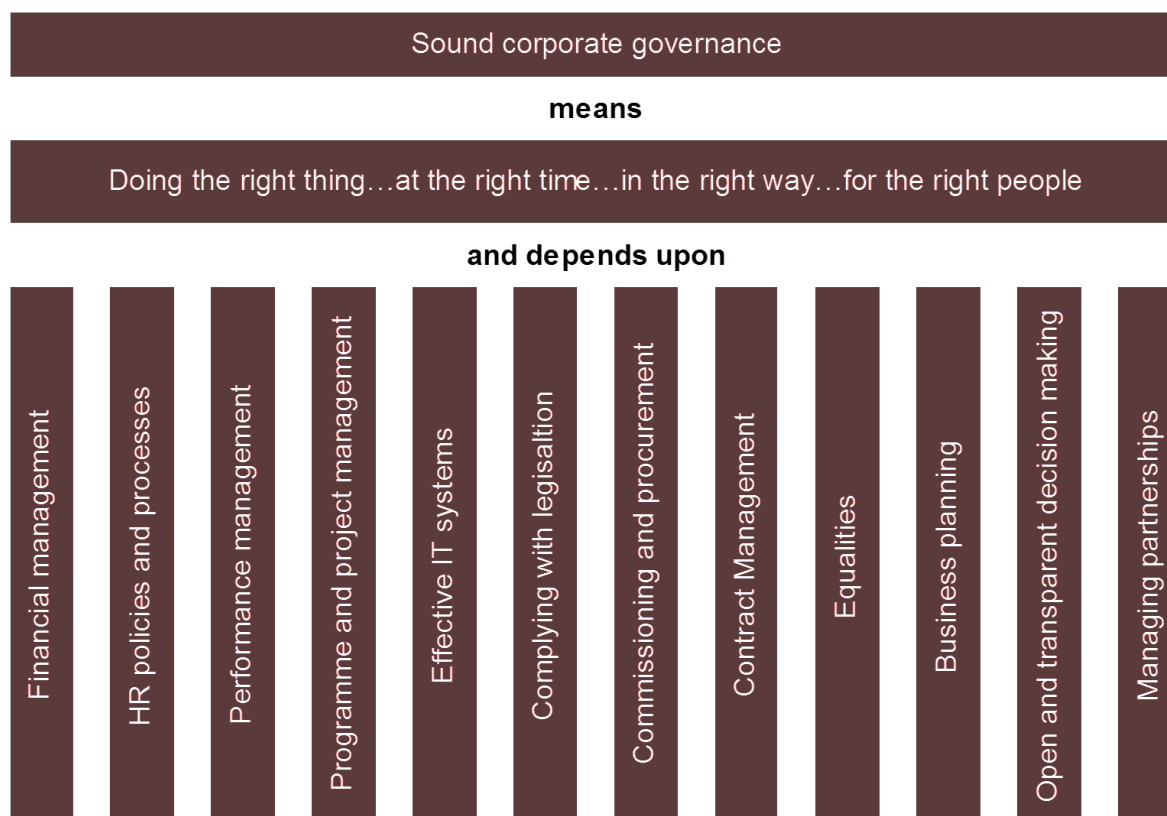
Counter fraud

Although responsibility for operating sound controls and detecting fraud is the responsibility of management the Service has a key supporting role. In particular, we are responsible for maintaining and publicising the Council's anti-fraud policy and coordinating the Council's participation in the National Fraud Initiative.

Our approach for 2017 / 2018

As in previous years the plan covers one year. This is now accepted best professional practice. The focus of our work continues to be primarily on the high risk areas and change programmes and key corporate processes. Audits of this nature are a more effective use of limited resources and are key to providing the appropriate assurance to the Council that its overall governance arrangements remain effective.

Figure 1: Key corporate processes



The resource available for county council work in 2017/18 is expected to be the equivalent of about 7 staff which means that we have to continue to focus on the really key issues.



To make the best use of limited resources audit work needs to be carefully planned. We have sought to align our work with the Council's risk base again this year, by liaising extensively with senior management and taking into account the organisation's aims, strategies, key objectives, associated risks, and risk management processes. Our plan also takes into account those topics which have not recently been audited or which feature in the corporate risk register or which when last audited received a low opinion. In addition, auditors regularly attend various professional networking meetings which highlight wider issues affecting public sector internal audit which need to be reflected in the programme of work.

The risk of potential fraud forms part of the risk assessment process and national surveys and intelligence on risk areas is taken into account along with data on actual frauds at Worcestershire.

Based upon the discussions to date and our professional judgement an indicative priority and an estimated number of days have been allocated to each potential topic. This takes into account a range of factors including: when the topic was last audited, complexity of the topic and level of change. The Council's strategic risks and the key planned work to provide assurance on these risks are shown in Annex 1.

In addition to the assurance and advisory work listed, provision has been made in our work plan to undertake the certification of a small number of grant claims and miscellaneous funds, undertake investigations, to complete outstanding 2016/17 jobs and a limited amount of counter fraud work (e.g. update of the anti-fraud policy and publicity).

The aim is to give a high-level overview of audit areas. The Committee will note that whilst we are able to cover key aspects of very high risk areas, these and other risks are not covered comprehensively. The Council is able to accept a plan on this basis, provided this matches its "risk appetite" for independent assurance, also recognising that management have the prime accountability for managing processes and risks (and therefore assurances can be obtained directly from them where necessary). Annex 2 shows those topics that we are planning to audit together with an illustrative list of topics that we are not planning to audit based upon existing level of resources. This annex reflects the continued upward trend in suggestions / requests for audit and particularly advisory work which in turn reflects the very high level of change and hence risks facing the organisation.

Demonstrating the assurances planned on each strategic risk and being transparent about auditable topics that cannot be audited are key requirements of internal audit professional standards and we are increasingly moving to a top down approach with the plan being driven by key risks. We have always undertaken a risk assessment exercise each year but changes to standards require plans to be more explicit on these matters.

In developing the list of planned topics we have taken into account existing management processes and oversight by support functions such as Finance, HR, Health & Safety and Legal. The internal audit service therefore builds upon the work on other assurance providers and allows us to reduce the resource required for some advisory topics. This approach will be further refined in future plans. Similarly, although our roles and responsibilities are different the service continues to liaise closely with the Authority's external auditors.

The majority of assurance services will be provided directly by the Risk and Assurance Service. External parties may be employed to provide support in specialist areas for example the provision of IT audit expertise. External support may also be called upon to cope with peaks in demand.

There will inevitably be circumstances where the Chief Risk and Assurance Manager will have to amend the programme, e.g. when risks change or a specific project becomes a matter of priority. There may be cases where individual lower priority audits have to be rescheduled because of competing priorities. Throughout the year the plan will be updated to ensure it remains relevant. In year changes to the plan to reflect such changes are accepted as best practice. This plan, therefore, is not set in stone. It will need revising as circumstances change.

Quality Assurance and Improvement Programme

The PSIAS require the Head of Internal Audit to develop and maintain a quality assurance and improvement programme (QAIP) covering all aspects of the internal audit activity.

The QAIP includes internal assessments, periodic self-assessments and external assessments and is not only designed to assess the efficiency and effectiveness of Internal Audit, but also to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The Service operates a quality management system compliant with the internationally accepted ISO 9001 standard. As part of this we have an Audit Manual based on accepted professional practice which as well being compliant with PSIAS builds quality into every stage of the audit process. A summary of the QAIP is shown in Annex 3.

G Rollason
Head of Internal Audit

Strategic Risks

	Risk	Gross Risk Rating	Net Risk Rating	Examples of past internal audit coverage ¹	Examples of proposed internal audit role / planned assignments
1	Failure to maintain business as usual / appropriate levels of service at the same time as transformation			<ul style="list-style-type: none"> Performance Management (Substantial 2015/6) Audits on specific topics (commissioning placement process) 	<ul style="list-style-type: none"> Risk management (advisory) Highways contract Liberata contract Contract management Learning and Achievement contract
2	Failure to deliver financial savings identified in MTFP			<ul style="list-style-type: none"> Children's Recovery Plan (Full 2016/7) 	<ul style="list-style-type: none"> Contract management Transformation and savings plans Budget management
3	Failure to deliver a major project leading to increased costs, reputational damage to the Council and/or failure to realise savings			<ul style="list-style-type: none"> Learning and achievement contract (Substantial 2016/7) Design Services (Limited 2015/6) 	<ul style="list-style-type: none"> Project management Liberata contract Evesham Abbey Bridge Design Services
4	Serious harm or death due to a failure on the part of the Council			<ul style="list-style-type: none"> Adults Safeguarding (Substantial 2016/7) Child academic improvement (Substantial 2015/6) 	<ul style="list-style-type: none"> Hospital discharges Case file audits Schools themed - safeguarding

¹ Only audits completed in last 2 years are shown

	Risk	Gross Risk Rating	Net Risk Rating	Examples of past internal audit coverage ¹	Examples of proposed internal audit role / planned assignments
5	Failure to comply with legislation and statutory duties			<ul style="list-style-type: none"> Safeguarding (Substantial 2016/7) 	<ul style="list-style-type: none"> Health and safety DOLS Ofsted improvement plan
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			<ul style="list-style-type: none"> Information Governance ICO follow up (draft issued – Moderate 2016/17) Specialist IT audits 	<ul style="list-style-type: none"> Information governance (advisory) Specialist IT audits
7	Demographic changes lead to changed demand for Services				<ul style="list-style-type: none"> Panel process Brokerage Continuing health care Social work practice Hospital discharges
8	Failure to safely, securely and effectively manage the Council's premises				<ul style="list-style-type: none"> Place partnership
9	Ineffective emergency Response arrangements			<ul style="list-style-type: none"> Flood management (Moderate 2015/6) 	<ul style="list-style-type: none"> Emergency planning
10	Ineffective Business Continuity arrangements – Business Continuity arrangements need to keep pace with transformation and assurances in place for the arrangements of commissioned services			<ul style="list-style-type: none"> Disaster recovery (in progress) Business continuity (draft issued – Substantial 2016/17) 	

Workplan 2017/2018

1. Planned Work

Service	Topic	Priority H/M/L	Assurance	Advice
Adults	Panel process	H	✓	
	Direct Payments	H	✓	
	Hospital discharges	H	✓	
	Brokerage	H	✓	
	Continuing health care	H	✓	
	Mental Health s75 agreement	H	✓	
	Case file audits	H	✓	
	Learning disability services	H	✓	
	Domiciliary care - billing and charging	H	✓	
	Framework i	H	✓	
	Social work practice	H	✓	
	DOLS	H	✓	
	E-Market Place	H		✓
Childrens	Direct payments	H	✓	
	Learning and achievement contract	H	✓	
	High needs review / SEN	H		✓
	Ofsted improvement plan	H	✓	
	Regional adoption agency	H	✓	
	Apprentiship levy	H		✓
	School visits	H	✓	
School themed - Safeguarding	H	✓		
COACH	Business ownership of systems	H	✓	
	IT audit	H	✓	
	Review of Contracts	H		✓
	Agency staffing	H	✓	
	Information Governance	H		✓
	Performance management	H	✓	
	Risk Management	H		✓
	Place partnership	H	✓	
Starters and leavers	H	✓		
Cross cutting	Corporate project management	H	✓	
	Contract management	H	✓	
	Emergency planning	H	✓	
	Transformation & savings plans	H	✓	
	Health and safety	H	✓	
E&I	Transport	H	✓	
	Highways Contract	H	✓	
	Evesham Abbey Bridge	H	✓	

Service	Topic	Priority H/M/L	Assurance	Advice
	Development / highways relationship	H	✓	
	Worcester Parkway	H		✓
	Economic growth	H	✓	
	Design Services	H	✓	
Finance	Accounts payable	H	✓	✓
	Accounts receivable	H	✓	
	Procurement	H	✓	
	BACS releasing	H	✓	
	Budget management	H	✓	
	Liberata contract	H	✓	
	Payroll & HR function	H	✓	
	VAT	H	✓	
	Pensions Investment	H	✓	

2. Illustration of auditable topics not planned for 2017/2018

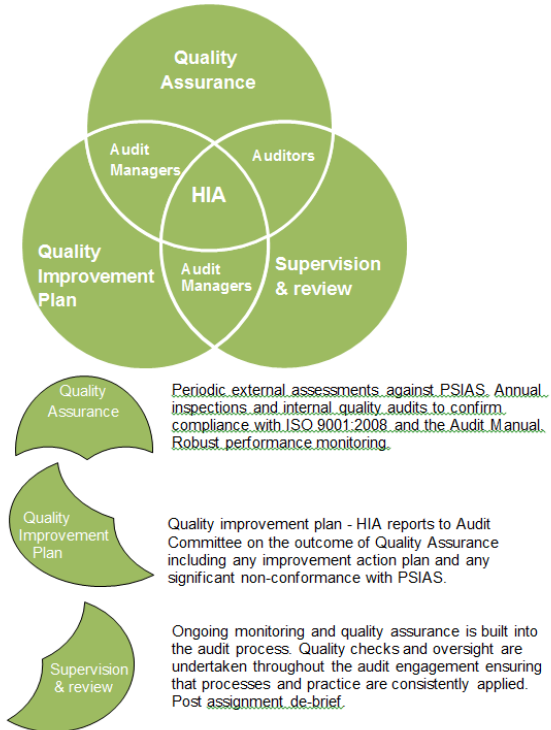
In addition to the coverage of key risks areas discussed at Annex 1 and above, the PSIAS requires the strategy to be open about those audit areas not covered in 2017/2018. Based upon the planning discussions with senior management, our professional judgement, the results of previous audits and extent of other assurances the following topics are not planned for 2017/18. However, should planned audits not take place, topics from this list will be substituted.

Directorate	Area	Latest coverage	Priority H/M/L	Type
Adults	Domiciliary care contracts		H	Assurance
	Safeguarding	Substantial 2016/7	H	Assurance
	Transitions - children to adults		H	Assurance
Children	Framework		H	Assurance
	School Music Service		H	Assurance
	School Procurement - Themed		H	Assurance
COACH	Apprentishp levy		H	Assurance
E&I	Waste		H	Assurance
Finance	Bank reconciliation		H	Assurance
	Strategic and Financial Planning		H	Assurance
Public Health	Public Health grant funding		H	Assurance
Adults	Appointees		M	Assurance
Children	School balances - themed audit	Substantial 2016/7	M	Assurance
	Governor support		M	Assurance
	Short break provision		M	Assurance
	Virtual school		M	Assurance
	Case file audit		M	Assurance
	Libraries and museums		M	Assurance
	Connecting families		M	Assurance
	Starting Well / early help		M	Assurance
	NEETS		M	Assurance
	Child academic improvement	Substantial 2015/6	M	Assurance
	Foster Payments	Substantial 2015/6	M	Assurance
	Schools Themed - Budgetary control	Substantial 2015/6	M	Assurance
	Schools Themed - Staffing	Substantial 2015/6	M	Assurance
	Placements in residential care (Out of County)	Moderate 2016/7	M	Assurance
	Children's recovery plan	Full 2016/7	M	Assurance
COACH	Medical examiners		M	Assurance
	Use of consultants	Substantial 2016/7	M	Assurance
	Divisional funds		M	Assurance
	Disaster recovery & Business	In progress	M	Assurance

Directorate	Area	Latest coverage	Priority H/M/L	Type
	Continuity			
	Corporate Governance		M	Assurance
	Risk Management		M	Assurance
	Job Evaluation	Moderate 2015/6	M	Assurance
	Procurement		M	Assurance
	Commissioning	Substantial 2016/7	M	Assurance
E & I	Trading standards	In progress	M	Assurance
	Malvern Hills Science Park		M	Assurance
	Flood management	Moderate 2015/6	M	Assurance
	s106 & s38, etc	Moderate 2016/7	M	Assurance
Finance	Insurance		M	Assurance
	Pensions Admin	Substantial 2015/6	M	Assurance
	Treasury Management	Substantial 2016/7	M	Assurance
Public Health	Contracting		M	Assurance
Adults	Pre-payment Cards		L	Assurance
	Deferred Payments Scheme	Substantial 2015/6	L	Assurance
	Care Plans	Substantial 2016/7	L	Assurance
	Reviewing	Substantial 2016/7	L	Assurance
	Commissioning and Placement Process	Substantial 2016/7	L	Assurance
	Financial Assessments	Substantial 2016/7	L	Assurance
Children	Countryside Services		L	Assurance
	School themed - Procurement cards		L	Assurance
	Primary School Sports Grant		L	Assurance
	Foster carer's journey	Moderate 2015/6	L	Assurance
	Edge of care	Substantial 2016/7	L	Assurance
COACH	Councillors ICT Allowance		L	Assurance
	Travel and Subsistence - Officers		L	Assurance
	Travel and Subsistence - Cllrs		L	Assurance
	Information Management (ICO Follow up)	Draft issued - Moderate 2016/7	L	Assurance
E & I	Scientific Services / county enterprises		L	Assurance
	Archives & Arch	Substantial 2015/6	L	Assurance
	Capital programme		L	Assurance
Finance	Income collection (cash)		L	Assurance
	Business Rates Pool		L	Assurance
	Pensions Governance	Substantial 2015/6	L	Assurance

Annex 3: QAIP

Internal Audit Service – Quality Assurance and Improvement Programme



Head of Internal Audit

- Undertake an annual self-assessment against the requirements of PSIAS
- Develop and maintain a Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment in accordance with PSIAS requirements

Audit Managers

- Undertake supervision and review audit engagements
- Obtain assurance from supervision and review processes that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit manual / PSIAS
- Provide HIA with regular reports on outcome of reviews, performance against key service measures etc.
- Provide feedback to auditors on quality of their work
- Promote high professional standards and compliance with audit manual / PSIAS
- Continually develop their team members

Auditors

- Conduct audit engagements in accordance with audit manual PSIAS
- Deliver all assignments on time and within budget

All

- Comply with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Committed to delivering high quality services and continuous improvement
- Promote the internal audit service
- Committed to continuing professional development

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Audit Charter

“Providing assurance on the management of risks”

Draft to be considered by Audit and Governance Committee – 21st July 2017

Audit Charter

“Providing assurance on the management of risks”

An Audit Charter is a mandatory requirement of the Public Sector Internal Audit Standards and the associated Local Government Application Note (PSIAS) and sets out the purpose, responsibilities and authority of the internal audit service within Worcestershire County Council. These services are provided by the Risk and Assurance Service of Warwickshire County Council under an administrative delegation of internal audit functions from Worcestershire to Warwickshire.

This document was approved by the Audit and Governance Committee on 21st July 2017 and applies until amended.

Context

The Council has a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which:

- facilitates the effective exercise of their functions and the achievement of its aims and objectives
- ensures that the financial and operational management of the Authority is effective; and
- includes effective arrangements for the management of risk.

Furthermore, the CIPFA/SOLACE governance framework “Delivering Good Governance in Local Government” outlines the need for risk management to be embedded into the culture of the organisation, with members and officers recognising that risk management is an integral part of their jobs.

The requirement for an internal audit function is also contained in the Regulations which require the Authority to:

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

Definitions

The role of the “Board” outlined in the PSIAS is fulfilled by the Audit and Governance Committee. The role of senior management is fulfilled by the Chief Financial Officer. The role of the Chief Audit Executive (Head of Internal Audit) is fulfilled by the Chief Risk and Assurance Manager of Warwickshire County Council.

Purpose

The Council has to comply with the PSIAS which define internal audit as:

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The key word in the definition is assurance; the role of audit is primarily to provide reasonable assurance to the organisation (Chief Executive, directors, heads of service, other managers and the Audit and Governance Committee) and ultimately the taxpayers that the Authority maintains an effective control environment that enables it to manage its significant business risks. We do this by **providing risk-based and objective assurance, advice and insight.**

The IIA standards, on which PSIAS are based, define the mission of an effective internal audit function as:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

Achievement of the mission is supported by a range of standards and guidance including: the Core Principles, the Definition of internal audit and a Code of Ethics.

For an audit function to be considered effective all of the following Core Principles must be present and operating effectively:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

The PSIAS includes a mandatory Code of Ethics (based on international IIA standards) covering integrity, objectivity, confidentiality and competency. All internal auditors in the public sector must also have regard to the Committee on Standards of Public Life’s Seven Principles of Public Life – the Nolan principles.

The Service also assists the designated chief financial officer in discharging his delegated responsibilities under Section 151 of the Local Government Act 1972 which requires that authorities:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

Scope and Responsibility

The Service is responsible for providing assurance in accordance with all relevant professional standards and guidance across the council’s entire control environment and across all activities, including:

- services provided on behalf of other organisations by the Authority, and
- services provided by other organisations on behalf of the Authority.

In addition to core assurance work the Service also provides the following work:

Consultancy / Advisory work

This work is designed to add value and offer insights that should improve the effectiveness of risk management, control and governance processes at the request of the organisation, subject to the availability of skills and resources.

Due to its detailed knowledge of systems and processes the Service is well placed to provide advice and support to managers on the implications of changes to policy or processes. As such, the Service must be informed and consulted about plans for major or complex changes to systems. The Service will advise / comment on proposed changes and the controls to be incorporated in new and revised systems when invited to do so or where agreed in the annual plan. The final decision on whether to accept the audit advice rests with the relevant manager(s) but where appropriate the Head of Internal Audit may escalate the issue to more senior management. The provision of such advice does not prejudice the Service’s right to evaluate the established systems and controls at a later date.

Fraud

All managers are responsible for the prevention and detection of fraud, corruption and other irregularities. However, the Service assists with these responsibilities. Internal auditors when conducting audit assignments are alert to opportunities, such as control weaknesses that could allow fraud. If the Service discovers evidence of a fraud or other irregularity the relevant line manager will be informed.

Managers should immediately inform the Head of Internal Audit if a fraud or other irregularity is suspected who will then inform the Chief Financial Officer of significant allegations. Other officers will in turn be informed as appropriate and consistent with the need to ensure confidentiality is maintained so as not to prejudice any subsequent investigation.

Managers should also ensure that:

- any supporting documentation or other evidence is secured; and

- confidentiality is maintained so as not to prejudice any subsequent investigation.

Usually straight forward matters will be investigated by the service concerned with support provided by internal audit but the Service may investigate the more complicated or large cases of suspected fraud and other irregularities. Where an investigation is undertaken by internal audit the service may either be charged for the work involved or the planned investigations contingency used. Where the Head of Internal Audit's view is that an investigation is required but either the service does not want to proceed or does not want to pay for this work, this will be reported to the Chief Financial Officer for a decision to be made on how to progress the matter.

In all cases it is the responsibility of the relevant manager(s) to determine what action to take as a result of the investigation.

The Service is responsible for reviewing the Authority's response to fraudulent activity in order to ensure that appropriate action has been taken. Once an investigation is concluded, the Service will undertake a review to determine whether controls should be strengthened.

The Head of Internal Audit is responsible, following consultation with relevant managers, for reporting frauds and subsequent liaison with the Police and other investigative agencies.

Value for money

The service will offer advice and insight concerning instances of over control, or inefficiency, but will not specifically examine or evaluate the extent that value for money is achieved as part of routine reviews.

Where specifically agreed in the audit plan the service will, subject to availability of resources, also:

- undertake or participate in specific value for money, or similar, reviews / projects;
- facilitate the introduction of best practice across the Authority.

The scope of a value for money / service review will not normally overlap with the scope of an audit. However, the Service will take account of the timing and scope of such reviews when planning its work.

Where a review team is actively looking at options that have a material impact on risks and controls the Head of Internal Audit must be informed at an early stage. Where requested, and subject to the agreement of the relevant manager, the Service will assist reviewers by supplying information and knowledge gained during audits where this is relevant to the scope of the review.

Other

The Head of Internal Audit may, at the request of senior managers or the Council or any of its committees, carry out investigations into issues where the Authority's strategic, corporate or financial interests are at stake.

Wherever possible staff responsible for providing advice on a particular topic will not undertake assurance work on that topic for at least 12 months. Where this is unavoidable management supervision will ensure that no conflict of interest arises and objectivity is maintained.

Any significant unplanned non-assurance work that would impact delivery of the core assurance work will be discussed with the Chief Financial Officer and reported to the Audit and Governance Committee.

Independence

The Service is managed by the Head of Internal Audit who is professionally qualified as required by PSIAS. Although the Head of Internal Audit's direct reporting line on audit matters is to the Chief Financial Officer, he also reports functionally to the Audit and Governance Committee which has responsibility for overseeing audit arrangements.

The Service does not have any executive responsibilities and is independent of the activities that it audits. This enables it to provide impartial and unbiased professional opinions and recommendations.

The Service is free to plan, undertake and report on its work, as the Head of Internal Audit deems appropriate, in consultation with relevant managers and the Audit and Governance Committee.

Line managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity.

The Service provides advice and assistance to managers and provides assurance that their control responsibilities are being properly fulfilled. Line managers are accountable for accepting the Service's advice and implementing their recommendations.

Audit and Governance Committee

The Council is responsible for maintaining an audit committee which complies with all relevant guidance. The Committee's responsibilities include reviewing and commenting upon:

- formally approving the audit charter;
- formally approving (but not directing) the overall internal audit programme of audits to ensure that it meets the Council's overall strategic direction (paying particular attention to whether there is sufficient and appropriate coverage);
- reviewing and commenting on summaries of work done, key findings, issues of concern and action in hand as a result of audit work; and

- receiving and reviewing the annual report from the Chief Risk and Assurance Manager in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage.

Right of access

To undertake its work the Service has unrestricted access to all the Authority's personnel, premises, documents, records, information and assets including those of partner organisations¹. The Service has authority to access all relevant computer data as part of their work, including that registered under the Data Protection Act.

The Service is authorised to obtain the information and explanations they consider necessary from any employees, partners or agents of the Authority to fulfil their objectives and responsibilities. Managers must ensure that internal audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.

The Service has the right of access to any data required for their work that is owned by the Authority, but is processed or held elsewhere by third parties.

The Head of Internal Audit has the right of direct access to the Leader, Chief Executive, Chief Financial Officer, Chair of the Audit and Governance Committee, directors and heads of service.

Standards

The Service operates in accordance with the best practice standards and guidance in the PSIAS.

Individual auditors are required to comply with the standards, all relevant ethical and technical standards issued by their professional bodies and with all relevant codes of conduct issued by Warwickshire County Council.

Internal auditors are expected to:

- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- maintain and keep up to date their professional knowledge and skills and to participate in any continuing professional development scheme (CPD) operated by their professional body;
- participate in Warwickshire County Council's staff appraisal scheme;
- comply with Warwickshire's rules about declaring interests; and
- obtain and record sufficient audit evidence to support their findings and recommendations.

¹ Regulation 5 Accounts and Audit Regulations 2015

The Service will safeguard the information obtained in carrying out its duties. Information obtained will not be used for personal gain or disclosed unless there is a legal or professional requirement to do so (for example under the Freedom of Information Act).

Planning

Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.

The Head of Internal Audit produces an annual plan. This is developed in consultation with senior managers and takes account of the Authority's aims, strategies, key objectives, associated risks, and risk management processes. The Audit and Governance Committee agrees each year's plan. The plan includes an element of contingency to allow internal audit to be responsive to changing conditions and requests for assistance from managers. It is the responsibility of the Chief Financial Officer to ensure that the budget allocated to internal audit is sufficient to ensure that the plan can be delivered.

The Head of Internal Audit is authorised, in consultation with the Chief Financial Officer, to amend the plan during the year as necessary to reflect changes to systems or processes or in the risks facing the Authority. Any significant changes will be reported to the Audit and Governance Committee. All managers are expected to notify the service of any issues that may potentially require a change in the plan as soon as they become aware of them.

Terms of reference are prepared for each routine assignment and usually discussed with relevant line managers before the work is started.

Reasonable notice will usually be given to the relevant manager of the start of an audit and the Service will minimise any disruption to the smooth running of the unit under review. However, the Service reserves the right for unannounced visits where the Head of Internal Audit considers it necessary.

Reporting

All findings are reported to appropriate managers. Significant issues are reported in writing. The reports include an opinion on the adequacy of controls in the area reviewed, make recommendations for improvement and specify the officer responsible for implementation. Opinions on individual assignments feed into the overall opinion given in the annual report. Recommendations are prioritised.

Reports will usually be agreed with the relevant Head of Service and the final agreed report will be copied to the relevant Director. Reports identifying significant financial issues will also be copied to the Chief Financial Officer. Audits resulting in a limited opinion will also be reported to the Strategic Leadership Team.

Worcestershire County Council is responsible for publishing agreed reports as they consider appropriate

The Head of Internal Audit is responsible, based upon information provided by the Council, for reporting to the Audit and Governance Committee on the extent of implementation of agreed internal audit recommendations.

The Head of Internal Audit submits regular reports to the Audit and Governance Committee summarising the results of audits and progress in implementing audit recommendations. An annual report will be provided giving an opinion on the Authority's system of internal control which feeds into the annual review of the effectiveness of the Authority's system of internal control and the Annual Governance Statement.

Co-operation

The Service co-ordinates internal audit plans and activities with other internal and external providers of assurance, to ensure the most efficient use of the total resources devoted to audit. However, as recognised in professional standards (ISA 610) external audit and internal audit have different objectives and priorities. The Chief Risk and Assurance Manager is authorised to share information with external auditors and the Cabinet Office (for the purposes of the National Fraud Initiative).

The Head of Audit will liaise as appropriate with those involved in risk management and other policy and assurance providers, internal and external, sharing information and co-ordinating work as far as is practicable, in line with appropriate professional standards and other confidentiality considerations.

The service will work in partnership with other parts of the organisation on such matters as corporate governance, data protection, contracting and risk management.

It is the responsibility of every manager to be open, frank and honest at all times about any risks, concerns or problems that may exist and should provide more detailed information and evidence to internal audit within a reasonable time scale. Where services are provided by or to other organisations the Head of Internal Audit is authorised to agree the responsibility for the internal audit of those services with the internal auditors of those organisations and to share relevant information.

Managers setting up a shared service / partnership or outsourcing a service must consider the requirement for assurances in relation to what they are doing, including the option of internal audit and must include appropriate assurance obligations and internal audit access rights in any agreement.

Quality of service

The Head of Internal Audit manages a quality assurance programme to ensure that internal audit work complies with professional standards and achieves its objectives.

The Service takes the following steps to provide a quality service:

- adopts a flexible risk driven approach;
- works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control;
- continually seeks to improve the efficiency of its services in consultation with managers from across the Authority;
- regularly reviews its procedures to ensure that they remain appropriate.

The quality assurance programme includes:

- suitable guidance, support and review of all internal audit work;
- seeking feedback from line managers on the quality of internal audit work;
- periodic internal quality audits to monitor services provided by all internal auditors; and
- regular internal and external assessments in accordance with the PSIAS.

The Head of Internal Audit will investigate and respond promptly to all complaints about internal auditors or the service provided.

G Rollason
Head of Internal Audit

AUDIT AND GOVERNANCE COMMITTEE

21 JULY 2017

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

26 September 2017

Annual Statutory Financial Statements for the year ending 31 March 2017
Internal Audit Progress Report 2017/18
Counter Fraud Report
External Quality Assessment

8 December 2017

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

March 2018

Internal Audit Progress Report 2017/18
External Audit Plan 2017/18
External Auditor's Report

July 2018

Annual Statutory Financial Statements for the year ending 31 March 2018
Annual Governance Statement
Internal Audit and Delegated Service Annual Report 2017/18
Internal Audit Risk Assessment and Plan 2018/19
Corporate Risk Report

Contact Points

County Council Contact Points

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Specific Contact Points for this report

Simon Lewis, Committee Officer
Tel: 01905 846621
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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