

Agenda

Audit and Governance Committee

**Friday, 8 December 2017, 10.00 am
County Hall, Worcester**

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DISCLOSING INTERESTS

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

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

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

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

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorderd' 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, 8 December 2017, 10.00 am, County Hall, Worcester

Membership: Mr N Desmond (Chairman), Mr R W Banks, Dr 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 7 December 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 meetings held on 26 September and 13 October 2017. (previously circulated – pink pages)	
5	External Audit 2016/17 - Lessons Learned Report	1 - 12
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 29 November 2017

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**AUDIT AND GOVERNANCE COMMITTEE
8 DECEMBER 2017****FINAL ACCOUNTS 2016/17 - LESSONS LEARNED REPORT**

Recommendation

- 1. The Interim Chief Financial Officer recommends that:**
 - a) The report be noted; and**
 - b) The Committee receives an update report at its meeting on 16 March 2018.**

Background

- 2. The statutory deadline for publishing the 2016/17 audited set of accounts was 30 September 2017, although the Council was aiming to publish by 31 July 2017. Members will be aware from previous reports to Committee that there were a number of issues during the closure of accounts process that meant that the statutory deadline was not met.**
- 3. The Final Accounts pack including the Statement of Accounts for the financial year ended 31 March 2017 was approved by this Committee on 13 October 2017 and the Chief Financial Officer signed the Letters of Representation on behalf of the County Council. It was agreed that the Interim Chief Financial Officer would provide a "Lessons Learned" report to this meeting.**
- 4. This report examines the issues leading up to the publication of the accounts and what lessons will be learned to ensure that the 2017/18 accounts are closed and audited within the statutory deadline, which for 2017/18 is being brought forward to 31 July 2018.**

Review

- 5. The Interim Chief Financial Officer took up post on 16 October 2017 and immediately commenced the "Lessons Learned" review. As part of the evidence gathering, the following took place:**
 - Meeting with Grant Thornton Director and Audit Manager
 - Meetings with central finance staff directly responsible for preparing the accounts
 - Meetings with finance staff located outside central finance e.g. finance staff supporting service directorates
 - Meetings with other staff who contributed to audit evidence eg Human Resources staff in particular those with responsibility for payroll and pensions
 - Review of Audit and Governance reports and relevant Management team minutes
 - Review of Best Practice documentation
 - Review of training materials and the final accounts project plan

Findings and actions

6. There are a number of actions that are already in place in preparation for the 2017/18 final accounts process. This includes ensuring that the experienced Finance Manager resumes the role of being the named point of contact with External Audit and takes responsibility for coordinating all queries as they arise. The Finance Manager met with Grant Thornton's Audit Manager and "In Charge" Auditor on 20 November 2017 to confirm the project plan timetable and activities required.
7. The results of the review and actions which have been / are being put into place are detailed in the following table under a number of key themes.

Finding	Action
Leadership and Governance The Finance Leadership Team did not receive regular reports on the progress against delivering the closure of accounts. It is important that senior managers are routinely updated so that any issues can be highlighted and resolved at an early stage.	<p>There will be a standing item on the Finance Leadership team agenda "Final Accounts" and the lead officer will provide updates to every meeting. This will include an issues and risk log which will pick up any items raised by the auditors, staff or as part of the Council's Annual Governance Statement process. The first of these updates took place on 27 November 2017.</p> <p>In addition, the Interim Chief Financial Officer will take responsibility to provide regular updates to Strategic Leadership Team. Reports will be made to every Audit and Governance Committee.</p>
Pre Planning The External Auditor's report to Audit and Governance Committee in March 2017 highlighted some potential issues, which subsequently came to fruition. Given that these had been identified at an early stage, there was an opportunity to take action to address these prior to the drafting of the final accounts. Any technical accounting issues should be discussed in advance of the drafting of accounts.	<p>Early planning meetings with Grant Thornton auditors will ensure accounting issues will be aired and discussed early.</p> <p>These will be discussed and mapped as part of the issues and risk log for the final accounts process and actively managed by the Finance Leadership Team</p>
Project Management A timetable had been agreed with External Audit colleagues, but deadlines were not met. There was insufficient capacity and flexibility within the plan, and no one person was responsible for ensuring deadlines were met. It is advantageous to have a single point of contact who is experienced in the final accounts process.	<p>A detailed project plan is being developed and will be reviewed / monitored by the Finance Leadership Team. There is a designated Finance Manager responsible for the plan who will be the single point of contact with External Audit. She will be supported by dedicated project management resource. There will be a clear escalation procedure for delays/concerns which will be shared with External Audit.</p>

Finding	Action
<p>Quality Assurance</p> <p>There were issues with quality assurance from beginning to end of the process. The first version of the accounts, produced on 22 May 2017 contained a number of obvious errors. As queries arose throughout the audit, responses were described as being "inadequate" in some cases.</p>	<p>Additional layers of quality assurance will be in place for accounts preparation, supporting working papers, dealing with audit queries, including sign off by Finance Managers within directorates and reviewed by the Finance Leadership Team.</p>
<p>Technical Judgements</p> <p>There was not collective "ownership" regarding the key judgements made in compiling the accounts.</p>	<p>The increased leadership and governance will ensure key issues and judgements are debated and collectively owned before accounts are compiled.</p> <p>Accounting policies are being reviewed and will be brought to a future meeting of Audit and Governance Committee.</p>
<p>Managing Relationships / Communication</p> <p>Officers from outside the central finance team have indicated that they were not always clear on what information was needed, which meant the quality of response suffered as a result. Clarity was needed on what evidence was required and what was acceptable as working papers. Relationships were challenged across the Council, partners and external audit.</p>	<p>The designated Finance Manager is an officer with many years' experience of completing this process at Worcestershire County Council. Relationships within and outside the Council are of many years' standing and it is believed that this will provide some clarity of understanding in terms of what is required.</p> <p>Clear communication with services outside of finance (e.g. HR and Place Partnership) will be undertaken with detailed requirements for the audit and responsible officers communicated.</p> <p>Finance Managers will be reminded of their roles and responsibilities with regard to final accounts and the role of their teams. They will be reviewing the project plan on a regular basis as part of their finance managers meetings and issues arising will be escalated to the Finance Leadership Team for solution.</p>

Finding	Action
<p>Systems and Processes</p> <p>There had been issues with financial systems which affected the ability to obtain information required. Firstly the previous financial system was in disaster recovery mode for a week. Secondly, there was difficulty in obtaining the necessary reporting from the new general ledger system in order for the external auditor to complete the necessary testing.</p>	<p>There is an acknowledgement that implementation of the new financial system has not gone as smoothly as we would have liked. There is a recovery plan in place and discussions have taken place with our systems supplier and Grant Thornton regarding the requirement to test key systems outputs. Timing is to be agreed with the External Auditor but it is anticipated that by the end of January there will be a "dry run" of the accounts closure process. A full set of controls processes are being documented and will be completed for the January dry run. This will include detailed testing of the data migration and cut-over to the new system.</p>
<p>Training/Expectations</p> <p>Members of finance teams were provided with training, the material for which was supported by external audit. The training covered items such as the type of supporting information that would be required. However, it is clear that this has not been followed in practice in some cases.</p>	<p>Training material will be refreshed to include the lessons learned from the 2016/17 audit. Training will be widened to non finance staff who may become involved in the audit, and partners.</p>
<p>Staffing</p> <p>Worcestershire has had a track record of early completion of the accounts, until the 2016/17 financial year. Responsibility stood with a very experienced small team within central finance. During the last year there were a number of staffing changes. Members of the experienced finance team had been seconded to the project for the implementation of the new finance system and replaced with temporary capacity at the same level of professional qualification. Although training had been given to the temporary staff, there was an issue with effective supervision and quality assurance of their work.</p>	<p>Staffing has been reviewed, both relating to the number of staff involved and their focus. The experienced central finance staff have returned to their substantive roles. There had been some vacancies in the team which have now been appointed to from internal resources and further recruitment processes are in train to backfill these roles from external sources.</p>

8. The Grant Thornton publication "Advancing Closure - Transforming the financial reporting of local authority accounts" has a number of recommendations, including a best practice checklist. Whilst the recommendations are primarily to ensure early closure, they are relevant in any case. The Finance Leadership Team will review

Worcestershire's performance against the checklist and this is contained as Appendix 1. These will be followed up in the detailed project plan.

Summary

9. There are many lessons to be learned from the finalisation of the accounts process for 2016/17. A major issue was that temporary staff were given the responsibility for the preparation of the accounts, and their work was not effectively quality assured. The External auditors had to complete significant additional work in order to deliver an opinion on the Council's financial statements, resulting in an increased audit fee of £35,072. This will be met from the Financial Services budget.

10. A return of the experienced in house team should bring a level of confidence given past performance in closing the accounts on time. The increased level of scrutiny and governance will ensure that any issues are escalated at the earliest possible opportunity.

11. It is acknowledged there is still significant work to be done and this will be closely monitored over the coming months. It is recommended that Audit and Governance receive an update report on progress at its next meeting in March 2018. The milestones for completion of the tasks will be agreed by the Council and Grant Thornton and these are included at Appendix 2.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sue Alexander Interim Chief Financial Officer

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Supporting Information

- Appendix 1 – Good practice checklist
- Appendix 2 - Milestone plan

Background Papers

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

Grant Thornton publication: "Advancing closure - Transforming the financial reporting of local authority accounts"

http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/grt103821_faster-close-report-v07-web-version.pdf

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Good practice checklist Grant Thornton – Final Accounts

Leadership and planning	Y/N	Comments
Has the authority clearly defined roles and responsibilities across the organisation in relation to its financial reporting?		
Has the authority clearly communicated the statutory timetable and its commitment to faster closing, both to officers and members?		
Has senior management signed up to the plans/taking an active role to promote its importance/benefits that will result?		
Are members and senior management routinely updated on the progress made in delivering the authority's closedown plans?		
Has the authority ensured that audit committee and council meetings are brought forward to reflect the earlier timetable?		
Project planning		
Has the authority appointed a project manager, of sufficient seniority within the finance team, to oversee the delivery of the project?		
Have the necessary staff resources been identified to support the delivery of the project and the impact this will have on their other responsibilities?		
Are all individuals aware of their responsibilities for preparing each section/note of the accounts?		
Has a realistic project plan been developed, setting out detailed timelines for completion of tasks, who will complete these and contingency for unforeseen issues?		
Has the authority identified the potential blockages and barriers in the delivery of its plans and identified actions to address these?		
Is this project plan supported by clear financial procedures and closedown instructions to ensure clear communications to officers of requirements?		
Has the authority identified opportunities to rotate or upskill a wider group of individuals within the organisation to provide resilience for unforeseen loss of key staff and develop skills across the finance team?		
Has the authority established a committee/group to routinely monitor the progress against plans and ensure these stay on track?		
Systems and processes		
Has the authority reviewed the outcomes of the previous year's accounts preparation processes and identified where changes or improvements can be made?		
Has the authority reviewed all manual procedures and financial processes and considered where there is scope to automate and/or standardise these across the organisation?		
Has the authority reviewed financial procedures and tasks to identify scope for streamlining, modification and improvement?		
Have all routine financial tasks been performed on a timely basis throughout the year to avoid additional procedures required at year end?		
Has the authority reviewed its monthly management reporting processes to identify opportunities to align these more closely to the year end processes?		
Has the authority undertaken an in year interim hard close of its accounts to identify any possible issues early?		

Is the authority up to date on expected accounting changes in the financial reporting framework and considering the impact of these as early as possible?		
Has the authority reviewed its accounting policies to reflect any changes and ensure that these are tailored and appropriate for its circumstances? Have these policies been shared and discussed with the audit committee?		
Has the timetable and procedures built in sufficient time for quality assurance checks of the accounts and supporting working papers?		
Has the authority identified those areas where significant judgements and use of estimates are required and identified the basis on which these will be prepared and the data needed to support them?		
Managing relationships with others		
Has the authority identified those areas where information is required from other parties and ensured that this is incorporated into the project plan? Eg Valuers/Actuaries/Legal specialists/Specialist accounting advice eg PFI		
Has the authority conducted an assessment of its likely group relationships and other external entities and agreed with its subsidiaries/associates/joint arrangements when group consolidation information or disclosures will be provided?		
Has the authority spoken to its suppliers and contractors to ensure that arrangements for year-end processing and payment of invoicing is managed effectively?		
Has the authority discussed information requirements and timetables with other partner public bodies relating to any shared services and partnership working arrangements?		
Working effectively with auditors		
Has the authority shared its closedown project plans with its auditors and agreed key dates and milestones?		
Has the authority discussed and agreed respective responsibilities and set clear expectations on the accounts preparation and audit processes?		
Does the authority communicate with its auditors on a regular basis to discuss emerging accounting issues and progress against plans?		
Has the authority conducted a thorough review of its accounts and identified and discussed with its auditors those areas where there is scope to declutter and remove unnecessary notes and disclosures?		
Has the authority discussed and agreed its working paper requirements to support the completion of the audit?		
Has the authority and auditor shared their staff availability and holiday commitments so that these can be reflected in the work timetables?		
Has the authority discussed with its auditor where audit procedures can be commenced early and financial records that can be tested at the interim audit?		
Has the authority provided an early copy of the skeleton accounts and disclosures to allow opportunity for review of updated disclosures and prior year information in advance of the year end?		
Has the authority met with its auditor to reflect on the previous year's audit process and identify areas that can be changed or improved?		

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Date	Activity	Staff	Comment
22/01/18 to 02/02/18	Early audit	Core team / GT	Policies, procedures, key data, systems soft close
05/03/18 to 16/3/18	Interim audit	All staff / GT	Month 1-10 data
31/03/18	P12 close		
27/04/18	P13 close		
30/04/18 to 16/05/18	Accounts production	Core team	
29/05/18 to 20/07/18	Final audit	All staff / GT	Statement of accounts, month 11/12 data, reconciliations
18/05/18 to 29/06/18	Public inspection		
26/07/18	Audit & Governance Committee		

***NB Dates may change**

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AUDIT AND GOVERNANCE COMMITTEE 8 DECEMBER 2017

ANNUAL AUDIT LETTER 2016/17

Recommendation

1. The Interim Chief Financial Officer recommends that:
 - a) The Annual Audit Letter 2016/17 be noted;
 - b) The Committee considers whether it wishes to receive any further reports on information contained in the Letter; and
 - c) The Committee considers whether there are any issues arising from the Letter to draw to the attention of the Council.

Summary

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

Contact Points

County Council Contact Points

County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sue Alexander, Interim Chief Financial Officer
Tel: 01905 846942
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Supporting Information

- Appendix – The Annual Audit Letter for Worcestershire County Council

Background Papers

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

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The Annual Audit Letter for Worcestershire County Council

Year ended 31 March 2017

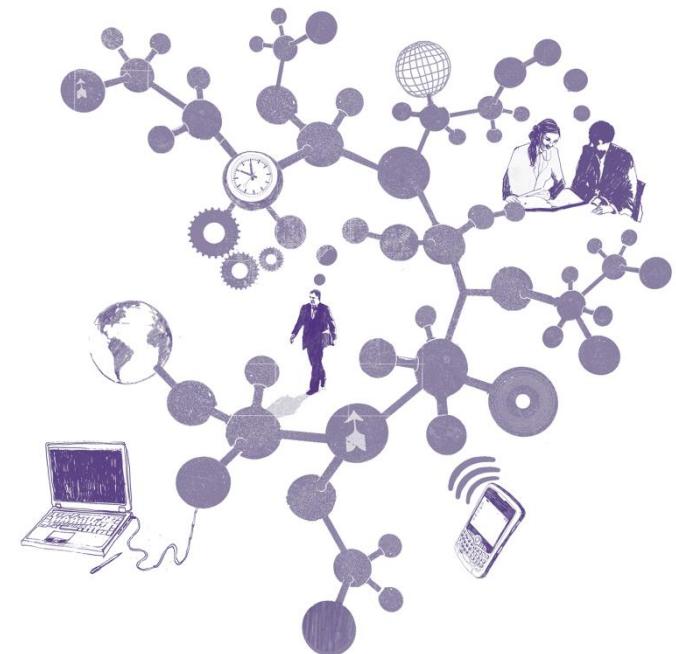
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A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Worcestershire County Council (the Council) for the year ended 31 March 2017, including the audit of the Pension Fund.

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

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Reports on 21 July, 26 September and 13 October 2017.

Our responsibilities

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 17 October 2017, after the 30 September statutory deadline. The delay occurred primarily because insufficient Council staff time was devoted to producing the accounts and responding to the audit and a less experienced team was in place.

The difficulties are set out in section 2 of the Letter but included:

- The poor quality of the draft accounts submitted for audit
- Inadequate quality assurance of the accounts, working papers and explanations provided to us
- Failure to promptly resolve issues which we raised during our interim audit work in March.
- Difficulties in providing necessary information from the new financial systems
- Significant delays in responses to audit queries.
- Lack of ownership of key accounting judgements and decisions.

As well as creating a significant delay in completion of the audit, these issues also meant that we had to spend around 35% more time on the audit than normal, and we will therefore be charging the Council a significant additional fee (see Appendix A).

For 2017/18, the statutory deadline for publication of audited accounts comes forward by two months to 31 July. Given the issues this year, and the fact that the 2017/18 accounts will need to be produced from the new financial systems for the first time, there is a significant risk that the deadline will not be met. We are working closely with officers to ensure that lessons are learned from this year's experience and that robust plans are in place for next year.

Pension Fund opinion

We gave an unqualified opinion on the Pension Fund accounts also on 17 October 2017, but the delay was caused only by the need to give the opinion at the same time as that on the main Council accounts. The audit of the Pension Fund was much smoother and we were able to report our findings to the Audit and Governance Committee in full on 21 July.

Executive summary (continued)

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017 except for the inadequate arrangements in place within Children's Services as identified by Ofsted. We therefore qualified our value for money conclusion in our audit opinion on 17th October 2017 in relation to this one issue.

Whole of government accounts

We have completed work on the Council's consolidation return following guidance issued by the NAO and anticipate providing an unqualified report by 8 December 2017

Certificate

We intent to certify that we had completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code by 8 December 2017.

Grant Thornton UK LLP
November 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £15.498 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year, rather than, for example, the value of its net assets.

We also set a lower level of specific materiality for senior officer remuneration, exit packages and auditors remuneration.

We set a lower threshold of £761,000 to determine findings which did not merit reporting to the Audit and Governance Committee in our Audit Findings Report.

Pension Fund

For the audit of the Worcestershire Pension Fund accounts, we determined materiality to be £19.523 million, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as management expenses and related party transactions. We set a threshold of £124,000 to determine findings which did not merit reporting to the Audit and Governance Committee.

The scope of our audit

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

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

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

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

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

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

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 17 October 2017, which was after the 30 September 2017 statutory deadline and more than two months after the Council had planned to publish its audited accounts. Publication was planned for 31 July, which will be the statutory deadline from the 2017/18 accounts onwards.

Delays to the audit process

Six main factors led to the delays in completion of the audit:

- Failure to promptly resolve issues which we raised during our interim audit work in March – as usual, we agreed with officers at an early stage a range of issues which were most likely to provide problematic in compiling the accounts, so that officers can give them early attention and we can review them during our interim audit visit. This year these issues included the ‘telling the story’ changes to the format of the accounts and also the accounting entries for the Energy-from-Waste plant. Officers had, however, made little progress in dealing with these issues at the time of our interim audit visit, and did not promptly respond to the concerns we expressed at that stage. As a result, these more difficult areas needed more attention during the final accounts audit and indeed were among the last issues to be resolved in early October.
- The poor quality of the draft accounts submitted for audit – the accounts were submitted for audit slightly later than planned, omitted both the Narrative Statement and Annual Governance Statement, and contained numerous errors. Our high level review of those accounts raised over 60 different queries for the finance team to resolve. Over half of these queries led to an amendment to the financial statements.
- Inadequate quality control of the accounts, working papers and explanations provided to us – many of the delays to the audit process could have been avoided if adequate quality assurance procedures had been in place to ensure that the accounts, supporting working papers and explanations provided to us were fit-for-purpose. While some improvements were made towards the end of the audit, there will still quality issues even at the end of the process.

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- Difficulties in providing necessary information from the new financial systems – as part of our audit work, we review samples of payments made and income received in the following year to ensure that it has been correctly treated as falling in that year. This required reports of such transactions to be produced from the new financial systems and it took considerable time and effort for this to be provided.
- Significant delays in responses to audit queries – at least in part because of the transfer of staff resources onto the new systems implementation, officers were in some cases very slow to respond to queries raised by the audit team. This was compounded by the inadequate quality control, which meant that many of the responses were in any case inadequate and further explanations had to be sought.
- Lack of ownership of key judgements and decisions – in compiling a statement of accounts, officers need to take a number of important decisions and make judgements – for example in relation to how the EfW plant is to be valued and how they could be satisfied that assets not formally revalued in the year were nevertheless being disclosed at appropriate values. Officers were not proactive in making such judgements and only made them as a result of audit queries rather than as a considered part of accounts preparation.

Issues arising from our audit of the audit of the accounts

Unusually, we reported the key issues arising from the audit of the accounts on three separate occasions to the Audit and Governance Committee, and these are detailed below;

- Interim Audit Findings Report – 21 July 2017
- Updated Audit Findings Report – 26 September 2017
- Audit Findings Report, Updated Letter – 13 October 2017

Audit of the accounts continued

These reports set out a wide range of issues including:

- **Exit packages (ie severance payments).** Initial testing of note 1.08 identified a number of potential errors, plus the audit team experienced significant difficulty in obtaining the information needed to be able to verify this note. We asked officers to perform a 100% check of the note, given the sensitive nature of the expenditure. This led to an overall increase in value of the packages disclosed of £0.7m between the original accounts and the final version, with the number of packages disclosed also rising from 111 to 113.
- **Creditor balances.** Our testing identified 7 errors out of a sample of 17 balances. An evaluation of these errors identified an unadjusted misstatement of £15.4m where balances relating to s106 and s278 agreements (developer contributions to infrastructure costs) had been incorrectly treated. We acknowledge that there has been some uncertainty in the past about the correct accounting treatment and officers have agreed to review the accounting treatment used and update appropriately for the 2017/18 financial statements.
Cut off testing. This was an area where significant difficulties were experienced in obtaining the necessary information to be able to complete the audit testing. Officers recognise that this was as a result of the implementation of the new financial system and that some of the necessary reporting mechanisms were not in place when the new system first went live. This has been a key area of work for the finance team and this is due to continue so that the reporting will be fit for purpose when the 2017/18 financial statements need to be produced and audited.

Further matters arising from the audit are set out in the tables of significant risks overleaf – in relation to the ‘telling the story’ changes to the format of the accounts, accounting for the EfW plant and valuations of land and buildings.

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Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit and Governance Committee on 21 July 2017. In contrast to the main audit, the draft accounts were delivered on time with appropriate working papers. There were no adjusted or unadjusted misstatements to report that affected the financial position, with adjustments only made to improve the presentation of the financial statements and ensure greater alignment with the Code.

Annual Governance Statement and Narrative Report

Our interim AFR highlighted that we had some concerns over the consistency of the AGS with our knowledge of the authority. We noted that the draft statement did not specifically identify any significant governance issues, despite assurance statements provided by senior officers of the authority suggesting that there were areas where further work was needed. We shared examples of other AGSs with officers and the statement was revised in a way that complies more closely with the Code and gives appropriate prominence to the issues facing the authority. These discussions highlighted that the process for compiling the AGS within Worcestershire needs to change in future years and draw on practices that are happening elsewhere. In particular this needs to focus on what happens to the officers assurance statements, how are they evaluated and by whom. There needs to be clear evidence that the issues raised in these statements are considered by appropriate management of the authority and that the decision as to what to include in the AGS is not limited to finance staff.

Whole of Government Accounts (WGA)

We have carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We intend to issue a group assurance certificate which does not identify any issues for the group auditor to consider by 8 December 2017.

Audit of the accounts - Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management over-ride of controls Under ISA (UK&I) 240 there are presumed risks of management over-ride of controls being present in all entities.	We reviewed: <ul style="list-style-type: none"> • accounting estimates, judgements and decisions made by management • the journal entry process and control environment • a selection of unusual journal entries for testing back to supporting documentation, and unusual significant transactions 	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. We did note, however, that a significant number of journals are posted without any description, which weakens the audit trail.
Changes to the presentation of local authority financial statements CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	<ul style="list-style-type: none"> • We documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements. • We reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Authority's internal reporting structure. • We reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	This was an area where officers found it difficult to demonstrate how they had complied with the new requirements of the Code. An initial early review of the work completed on the restatement as part of our interim audit identified key errors which were reported to officers in March 2017. These issues were not actioned when the draft accounts were produced and consequently a number of changes were required to the draft financial statements prior to the accounts being certified. There were numerous changes made to the prior period adjustment note, (note 1.01), the expenditure and funding analysis (notes 1.01a and 1.01b) and the expenditure and income analysed by nature (note 1.03.2). In addition to changes in the values stated in the notes, further additional narrative was also needed to ensure compliance with the Code.

Audit of the accounts – Council (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Energy from Waste PFI Accounting Entries</p> <p>The Energy from Waste PFI is due to become operational in February 2017 which will result in the asset being brought onto the Council's balance sheet.</p>	<ul style="list-style-type: none"> • We reviewed the accounting transactions in respect of the Energy for Waste PFI to ensure that they were in line with guidance. • We considered the justification for the value of the property, plant and equipment balances in respect of the EfW scheme which the Council has included in its balance sheet. 	<p>As a significant risk we considered this with officers as part of the interim audit, however at this stage no work had been completed on the likely entries to be posted in the financial statements. The work was delayed until the draft financial statements were produced, and this raised a number of technical questions for officers to consider. These were addressed as part of the recovery visit in August, with officers providing an appropriate justification working paper in late September. The review concluded that management had made appropriate accounting judgements in relation to the PFI scheme. We did however identify the need for greater narrative disclosure within the notes to the financial statements, and identified some non material errors in the schedules of payments due to be made under the PFI contracts.</p>
<p>Property, plant and equipment</p> <p>The Asset register is currently held on a spreadsheet. As part of the introduction of the new financial system this information will be recorded in a new fixed asset module. Part of this transfer of data will involve a data cleanse exercise, which may impact on the year end position for 2016/17.</p>	<ul style="list-style-type: none"> • Discussed with the Council the planned work to identify and document the controls in place over the exercise. • Reviewed the work completed to ensure that the assets transferred to the new general ledger is accurate. • Considered the impact of changes to the asset register on the 2016/17 financial statements. • Tested any material changes to the 2016/17 accounts as a result of this exercise. 	<p>The arrangements over the management of the asset register remain an area where the Council needs to improve. Our work at interim highlighted a number of issues with the arrangements in place with Place Partnership to gain assurance over both the assets valued in year, and the assets that weren't due to be revalued. These issues were not resolved as part of the financial statement preparation, which meant that the information provided by the valuer was unchallenged by the Council.</p> <p>Our audit work identified potential material differences in the value of assets not revalued in year and as a result officers undertook additional work to provide the necessary assurance over the value of the asset base as a whole. This exercise identified an error in the valuation initially provided by PPL, the impact of which was £3.1m. In addition, in performing this work officers also identified a number of differences between the valuation report and the asset register.</p> <p>We have also reported that the format of the note 2.01.1 is not in accordance with the Code in the way assets under construction are shown as effectively negative additions. We have discussed this in previous years with officers who maintain that this disclosure is appropriate and fits better with how they record the information. Our view is that this remains a confusing presentation for the reader of the accounts which lacks the ability for comparison with other similar authorities. Consideration should be given to aligning this note with the examples provided in the Code.</p> <p>We will work with officers during our interim audit to ensure that appropriate arrangements are put in place for year end.</p>

Audit of the accounts – Council (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p> <p>Page 24</p>	<ul style="list-style-type: none">Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.Performed procedures to confirm the reasonableness of the actuarial assumptions made.	<p>We have completed our review of the controls in place by management over the pension fund net liability and also the review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. In addition we have gained an understanding of the basis on which the IAS 19 valuation has been carried out.</p> <p>Our review of the disclosures identified one error in the cash flow figure reported in note 2.12.7. This was amended for in the final version of the financial statements.</p>

Audit of the accounts – Pension Fund

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management over-ride of controls Under ISA (UK&I) 240 there are presumed risks of management over-ride of controls being present in all entities and that revenue may be misstated due to the improper recognition of revenue.	<p>We reviewed:</p> <ul style="list-style-type: none">accounting estimates, judgements and decisions made by managementthe journal entry process and control environmenta selection of unusual journal entries for testing back to supporting documentation, and unusual significant transactions	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.
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.	<ul style="list-style-type: none">We 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 performed walkthrough tests of the controls identified in the process.On a sample basis we tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreed those to the fund manager reports at that date. In addition, we 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.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit of the accounts (continued)

Looking forwards

The statutory deadline for publication of audited accounts comes forward for 2017/18 accounts to 31 July. Given the difficulties encountered this year and the fact that the 2017/18 accounts will be the first to be produced from the Council's new financial systems, there is a clear need for the Council to learn lessons from this year's process and apply these in planning for the 2017/18 accounts.

We are encouraged by the willingness of officers to establish the causes of this year's issues and learn the lessons and we have fed our views into this process. There is, however, a lot of crucial work to be done to ensure that the Council has a robust and properly-resourced plan for next summer. We will continue to work with officers to ensure the process is as smooth as possible.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in July 2017, we did not identify any specific recommendations. We did however note that the Council had a detailed action plan in place to respond to the Ofsted report on Children's services and that it was being monitored on a regular basis through a variety of mechanisms, including monitoring visits by Ofsted to review the progress being made.

Since we completed our work on this areas, we are aware that a revised Direction was issued to the Council on 19 September 2017 which requires the Council to develop an options analysis for alternative models for provision of children's services. This followed publication of a report by the Government appointed Commissioner, which confirmed that there are deep-seated issues within Children's services in the County. This options analysis is now well underway.

More recently, and since we issued our VFM conclusion, the Council has received more positive feedback in the form of the report of the most recent monitoring

visit, which concluded "The local authority has taken steps to tackle the serious weaknesses and is now beginning to make progress to improve services for children and young people.". Understandably, it notes that many of the improvements have yet to make a significant impact, and that some significant weaknesses remain, but it presents an encouraging picture of progress within the timescales.

We will continue to monitor developments and take account of progress in next year's value-for-money conclusion.

Overall VfM conclusion

We are satisfied that, the Council had proper arrangements in place in all significant respects, except for the matter we identified in respect of Children's services. As such we issued a qualified 'except for' conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Significant risk	Work to address	Findings and conclusions
Medium Term Financial Plan The budget position for 2017/18 and beyond remains challenging. The December 2016 cabinet report highlighted a gap of £2.9m needed to balance the budget for 2016/17. It further set out the level of savings required in future years, with the shortfall in funding for 2018/19 of £31m, and then falling to £22m in years 2019/20 and 2020/21.	We have reviewed the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.	<p>Historically the Council has a strong track record of meeting its financial targets. The outturn position after the transfers to directorate reserves shows that break even has been achieved for 2016/17.</p> <p>The achievement of break even has only been possible by an increased reliance on use of reserves and one off funding, demonstrating the consistently more challenging financial environment that the Council operates within.</p> <p>Significant cost pressures continue to exist in both adult and children's services. Adult services reported an underlying overspend of £6.7m, which has primarily resulted from cost pressures due to demographic and market pressures, and delays in achieving the savings plans. Children's services also reported an underlying overspend, this time of £5.2m, which has, like Adult services been met from use of reserves.</p> <p>In previous years we have reported on the overspends in Children's services and the cost pressures arising from looked after children placements. The budget has been strengthened, and this combined with cost management has resulted in an improved budget position during the year. It is however worth noting that the forecast underspend in this area was reduced towards the end of the year, as looked after children numbers increased following the Ofsted review.</p> <p>The most significant pressure in Children's services during the year has been as a result of Home to School Transport, where a growth in special needs provision, a delay in the achievement of savings and a reduction in income have all contributed to an overspend.</p> <p>The original savings target has not been delivered, with £6.5m of the savings been carried forward and included in the 2017/18 targets as part of the medium term financial plan. This represents 26% of the savings target, and compares to non delivery against the savings target last year of 11%. The Council continues to demonstrate that it has the necessary reserves in place to manage the slippage of these savings plans in the medium term.</p> <p>Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying savings of £26.5m in 2017/18, with further savings of £31.9m in 2018/19 and £21.7m in 2019/20 and £22m in 2020/21. For 2017/18 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years.</p>

Value for Money continued

Significant risk	Work to address	Findings and conclusions
Medium Term Financial Plan continued	<p>We have reviewed the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<p>We have reviewed the budget reports and the information presented to members, particularly in relation to the rationale for holding balances and reserves. We note the improvements that have been made in this area.</p> <p>While the long term funding of the Council continues to reduce, there are appropriate arrangements in place to balance the budget. Officers and members continue to demonstrate a good understanding of the financial constraints that they are working within, and how these can be managed to produce the best outcome for residents.</p>
Ofsted inspection of children's services Page 29 <p>Ofsted issued a report on the Council's children's services in January 2017 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this presents a significant risk to the Council's arrangements</p>	<p>We have reviewed the Council's response to the report and discussed progress on the plan with officers.</p>	<p>The Council have responded positively to the Ofsted report and has a detailed improvement plan in place which has been submitted to Ofsted. The high level eight point plan is supported by detailed work streams, and is being monitored by the Children's Social Care Service Improvement Board. This board is made up of a combination of both officers and elected members to oversee the delivery of the improvement plan and ensure progress is made.</p> <p>Officers were aware of the issues identified in the Ofsted report while producing the 2017/18 budget and medium term financial plan, and therefore ensured that additional resources were put in place to be able to meet the needs identified in the improvement plan. This resulted in an additional £2.5m of revenue funding, and a further £1m of capital investment for social care systems and information technology as part of the transformation project.</p> <p>Officers have looked to other authorities for best practice and advice in how best to turn the service around. They have welcomed the appointment of Trevor Doughty who is Director of Children's Services for Cornwall County Council, as the commissioner for Children's Services.</p> <p>At the time of forming a conclusion on the arrangements in place the improvement plan is still in its early stages and therefore there is limited evidence of the impact of the plan. We have therefore concluded that the weaknesses in the arrangements identified by Ofsted during 2016/17 remain in place up until year end and have issued an except for VFM conclusion.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	95,446	130,518	95,446
Statutory audit of Pension Fund	24,963	26,156	26,156
Total fees (excluding VAT)	120,409	156,674	121,602

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

The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed Non information list. Our reports in the year have highlighted the significant additional work that the audit team has had to undertake to deliver an opinion on the Council financial statements. We have discussed a fee variation of £35,072 with the interim Chief Financial Officer and intend to submit this for approval via PSAA as required before invoicing.

The fee variation for the Pension Fund of £1,193 has previously been agreed and approved by PSAA and is in relation to the work that we are required to carry out for other auditors around IAS 19 assurances.

Reports issued

Report	Date issued
Audit Plan	24 March 2017
Interim Audit Findings Report	21 July 2017
Updated Audit Findings Report	26 September 2017
Audit Findings Report – updated letter	13 October 2017
Annual Audit Letter	xx November 2017

Fees for other services

Service	Fees £
Audit related services:	
SFA compliance	4,000
Teachers Pension Claim (for year ending March 2017) *	4,200
Non-audit services	
CFO Insights (full cost of 2 year subscription)	9,995

* Note that at the time of production of the AAL the letter of engagement for the Teachers Pension Claim was still being agreed.

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as set in the table below.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services	SFA compliance certification (2016/17)	£4,000	• Self interest	<p>This is a recurring fee and therefore a small self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£95,446) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
Page 31	Teachers Pension Claim (2016/17)	£4,200	• Self interest	<p>This is a recurring fee and therefore a small self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£95,446) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
Non-audit services	CFO insights – Online tool for Council's aspiring to improve the financial performance of their Local Authority (Full cost of 2 year subscription)	£9,995	• Self interest	<p>£9,995 for a two year subscription to CFO insights was paid by the Council in 2016/17 and this was reported in our 2016/17 audit plan.</p> <p>This is a recurring fee and therefore a small self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£95,446) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to non-audit related services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
	TOTAL	£18,195		



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AUDIT AND GOVERNANCE COMMITTEE 8 DECEMBER 2017

CORPORATE RISK REPORT

Recommendation

1. The Audit and Governance Committee is requested to note the latest update of the Corporate Risk Register (attached as an Appendix) including mitigating actions identified in respect of red risks.

Background

2. The Corporate Risk Register provides a mechanism for collating and reporting risks that could affect the delivery of corporate objectives. In April 2017 the Council adopted an electronic risk register tool to hold in one place all the major risks identified by individual Directorates and major projects. A scoring system is used to rate individual risks. This allows risks to be ranked and provides a view of the highest risks identified across the organisation. At the end of Quarter Two 2017/18 there were 160 individual risks entered in the risk register of which 9 were identified as high / "red" risks.
3. The Appendix provides an overview of risks identified at the end of Quarter Two 2017/18, and more detail about the highest risks. As individual risks recorded in the new risk register are much more specific than the more generic corporate risks reported previously, they have been grouped for the purposes of reporting here. The nine highest risks can be grouped into two risk areas:
 - Children's Social Care – risks around safeguarding children which are being addressed by the Council's Improvement Plan
 - Adult Social Care – risks around increasing demand and related pressures in the overall health and social care system.
4. The Appendix provides more detail about these risks and details of the steps in place to mitigate them.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Tony Leak, Management Information and Analytics Manager

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tleak@worcestershire.gov.uk

Supporting Information

- Appendix – Corporate Risk Update

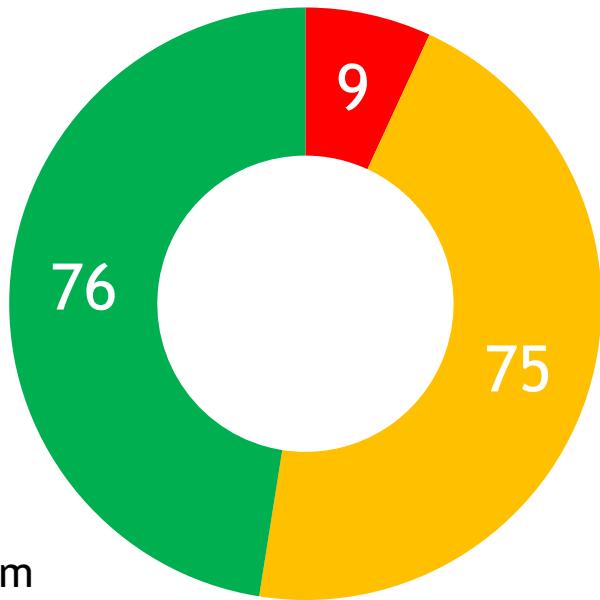
Background Papers

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

The Council's Risk Register is designed to provide an overview of all major risks across the organisation. The chart below give a snapshot as at the end of Quarter Two - 2017/18.



High Risks by Directorate	
Children, Families and Communities	5
Adult Services	4

CORPORATE RISK AREAS

CHILDREN'S SOCIAL CARE - SAFEGUARDING CHILDREN

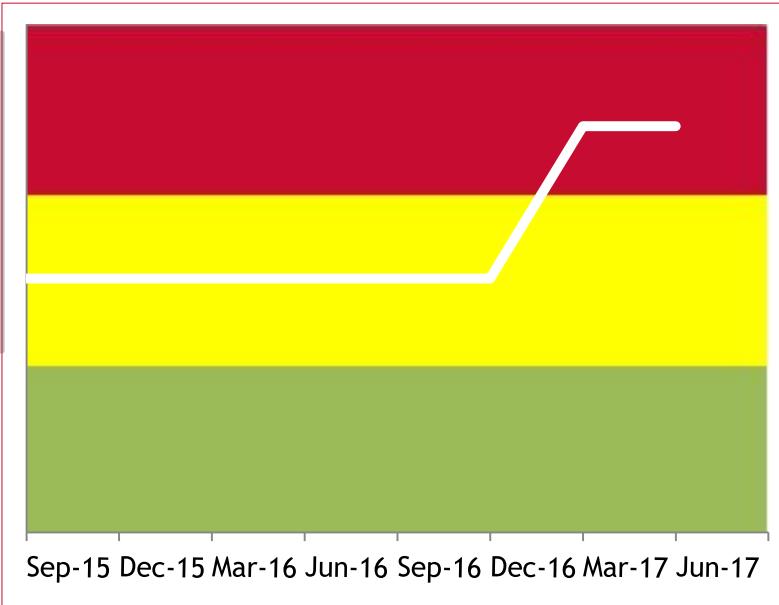
Q2 2017/18

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated Red due to a number of issues identified around safeguarding children which are being addressed by the Council's Improvement Plan

MITIGATING ACTIONS

- The Council has modified its Improvement Plan to focus on four key areas. A Worcestershire Safeguarding Children Board improvement plan is also in place. Plans are being monitored regularly by the Safeguarding Board and Children's Services Performance Board.
- Work is ongoing with Essex County Council as our Improvement Partner - an initial focus has been on the work of safeguarding teams.
- Additional social work capacity has been brought into the Family Front Door and cases have been brought up to date. Progress in this area was acknowledged in the latest Ofsted monitoring report.
- Performance information is being reviewed and case file audits are being undertaken to ensure no child is at risk of significant harm. Work is taking place at individual worker level to identify performance issues and develop action plans to address these.
- Work is being undertaken on the Council's recruitment campaign and to give Worcestershire a better visibility in the job market.



WHAT NEXT?

Maintain focus on the four key Improvement Plan themes:

- Family Front Door** - management of contacts, referrals and assessments
- Early Help** - remodel the early help offer
- Culture** - Create a child focused and accountable culture
- Quality assurance**

CORPORATE RISK AREAS

ADULT SOCIAL CARE - DEMAND AND RELATED PRESSURES

Q2 2017/18

WHY IS THIS AREA OF RISK RED?

- This area of risk is rated Red due to the challenges of an ageing population and increasing numbers of people with severe levels of disability, delays in hospital discharges, lack of affordable capacity in residential and nursing homes in Worcestershire, and resulting pressures on budgets and savings plans.



MITIGATING ACTIONS

- The Three Conversations model introduced by Adult Social Care is being rolled out further. 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.
- The Patient Flow Centre is providing in-reach support to acute hospitals including out of county hospitals. Daily stranded patient meetings are established in both local acute hospitals, with new models of working rolled out with community hospitals. Weekly and monthly meetings are taking place to look at delays.
- Use of block contracts for residential/nursing care is being monitored closely with outcomes used to inform future commissioning. Financial status of care home providers is being reviewed to identify high risk areas. Workforce availability is being monitored.
- Programme of deep dives on savings projects introduced to support this work.

WHAT NEXT?

- Further extension of Three Conversation model
- Continuing work with NHS partners to support acute and community hospitals
- Exploration of options for block contracting / establishing purchasing groups for care providers
- Alternative funding sources identified where savings shortfalls are identified

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AUDIT AND GOVERNANCE COMMITTEE

8 DECEMBER 2017

ANTI MONEY LAUNDERING POLICY

Recommendation

- 1. The Interim Chief Financial Officer recommends that the Anti Money Laundering Policy be approved.**

Background

2. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force on 26 June 2017. They implement the EU's 4th Directive on Money Laundering. In doing so, they replace the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007 which were previously in force.
3. Whilst Local Authorities are not directly covered by the requirements of the Money Laundering Regulations 2017, guidance from finance and legal professions, including the Chartered Institute of Public Finance and Accounting (CIPFA), indicates that public service organisations should comply with the underlying spirit of the legislation and regulations and put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements
4. As a result the Council's Anti Money Laundering Policy has been updated and members of Audit and Governance Committee are requested to approve the revised policy.

What is Money Laundering?

5. Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following acts constitute the act of money laundering:
 - concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002);
 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
 - acquiring, using or possessing criminal property (section 329).
6. These are the primary money laundering offences, and are thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the three primary offences, and tipping off. Tipping off is where someone informs a person or people who are, or who are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.
7. While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

Policy Statement

8. The purpose of the Policy is to prevent, wherever possible, the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases of money laundering.

The Money Laundering Reporting Officer (MLRO)

9. The officer nominated to receive disclosures concerning money laundering activity within the Council is the Chief Financial Officer.

Contact Points

County Council Contact Points

County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sue Alexander, Interim Chief Financial Officer
Tel: 01905 846942
Email: salexander@worcestershire.gov.uk

Supporting Information

Appendix – Anti Money Laundering Policy

Background Papers

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

Anti Money Laundering Policy

Document Details:

Owner/Lead Officer: Chief Financial Officer (Sue Alexander – Interim)

Date reviewed: 26 November 2017

Date of next review: 25 November 2018

Worcestershire County Council: Anti Money Laundering Policy

1. Introduction

- 1.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force on 26 June 2017. They implement the EU's 4th Directive on Money Laundering. In doing so, they replace the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007 which were previously in force.
- 1.2 A key difference is that relevant persons are obliged to adopt a more risk-based approach towards anti-money laundering, in particular in how they conduct due diligence. Determining the appropriate level of due diligence requires analysis of risk factors based on the EU Directive and which are set out in MLR 2017.

2. Scope of the Policy

- 2.1 This Policy applies to all employees and elected members of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.
- 2.2 The Policy sits alongside the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy.
- 2.3 Failure to comply with the procedures set out in this Policy may lead to further action being taken, including disciplinary action.

3. What is Money Laundering?

- 3.1 Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:
 - concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
 - acquiring, using or possessing criminal property (section 329);

3.2 These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

3.3 Potentially any person could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

Worcestershire County Council: Anti Money Laundering Policy

3.4 Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. ***The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO).***

4. What are the obligations on the Council?

4.1 Whilst Local Authorities are not directly covered by the requirements of the Money Laundering Regulations 2017, guidance from finance and legal professions, including the Chartered Institute of Public Finance and Accounting (CIPFA), indicates that public service organisations should comply with the underlying spirit of the legislation and regulations and put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

4.2 The Regulations apply to “relevant persons” acting in the course of business carried on by them in the UK. Not all of the Council’s business is “relevant” for the purposes of the legislation. It is mainly accountancy and financial, company and property transactions undertaken by Legal Services. However, the safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council; therefore, **all** staff are required to comply with the reporting procedure set out in the policy.

4.4 The obligations on the Council are to establish and maintain appropriate and risk-sensitive policies and procedures. Organisations must:

- appoint a Money Laundering Reporting Officer (“MLRO”) to receive disclosures from employees of money laundering activity (their own or anyone else’s);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.
- Conduct a money laundering and terrorist financing risk assessment and adopt appropriate internal controls.

5. The Money Laundering Reporting Officer

5.1 The officer nominated to receive disclosures about money laundering activity within the Council is the Chief Financial Officer who can be contacted as follows:

Chief Financial Officer (currently Sue Alexander – Interim)
Worcestershire County Council
Resources Directorate
P O Box 374
County Hall
Worcester
WR5 2XF
Email: salexander@worcestershire.gov.uk

5.2 In the absence of the MLRO the Head of Strategic Infrastructure Finance and Financial Recovery is authorised to deputise.

6. Disclosure Procedure

Cash Payments

6.1 No payment to the Council will be accepted in cash (including notes, coins or travellers cheques in any currency) if it exceeds £5,000.

Reporting to the Money Laundering Reporting Officer (MLRO)

6.2 Any employee who suspects money laundering activity is taking place, or an employee who becomes concerned that their involvement in a matter may amount to a prohibited act under the legislation, must disclose this promptly to the MLRO.

6.3 The disclosure should be made to the MLRO or deputy using the proforma report attached at Appendix 1. The report must include as much detail as possible.

6.4 The employee must follow any subsequent directions from the MLRO or deputy and must not make any further enquiries themselves into the matter. Additionally, they must not take any further steps in the transaction without authorisation from the MLRO or deputy.

6.5 The employee must not disclose or otherwise indicate their suspicions to the person(s) suspected of money laundering. They must not discuss the matter with others or note on a file that a report has been made to the MLRO in case this results in the suspect becoming aware of the suspicion.

Consideration of the disclosure by the Money Laundering Reporting Officer

6.6 The MLRO or deputy must promptly evaluate any disclosure to determine whether it should be reported to the National Crime Agency ("NCA")

<http://www.nationalcrimeagency.gov.uk/>.

6.7 The MLRO or deputy must, if they so determine, promptly report the matter to the NCA through the NCA website. Alternatively a SAR can be made via the SAR Online System: <https://www.ukciu.gov.uk/saronline.aspx>. NCA can be contacted 24 hours a day on 0370 496 7622.

6.8 All disclosure reports referred to the MLRO or deputy and reports made to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.

6.9 The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

7. Customer Due Diligence

7.1 Where the Council is carrying out certain regulated business (accountancy, audit and tax services and legal services re financial, company or property transactions) and as part of this

a) forms an ongoing business relationship with a client

Worcestershire County Council: Anti Money Laundering Policy

b) undertakes a one off or occasional transaction amounting to €15,000 or more whether carried out as a single transaction or several linked ones

c) suspects money laundering or terrorist financing;

7.2 then the Customer Due Diligence Procedure must be followed before any business is undertaken for that client.

7.3 Customer due diligence means:

a) Identifying the customer and verifying the customer's identity on the basis of information obtained from a reliable and independent source e.g. conducting a search at Companies House.

b) Obtaining information on the purpose and intended nature of the business relationship.

7.4 The Regulations regarding customer due diligence are detailed but the following questions help determine whether it is necessary:

- Is the service a regulated activity?
- Is the Council charging for the service?
- Is the service being provided to a customer other than another UK public authority?
- If the answer to any of these questions is **no then there is no need to carry out customer due diligence.**

7.5 If the answer to all these questions is yes then customer due diligence needs to be carried out prior to conducting business for that client.

7.6 Where the "relevant business" is being provided to another UK public sector body then written, signed instructions on the body's headed paper should be obtained prior to the transaction being completed.

7.7 The requirement for customer due diligence applies immediately for new customers and should be considered on a risk sensitive basis for existing customers. Customer due diligence means that the Council must know its clients and understand their businesses. This is so that the Council is in a position to know if there is suspicious activity that should be reported; clearly it is only by the Council knowing its clients and their businesses that it can recognise abnormal and possibly suspicious activity

7.8 The 2017 Regulations require that the Council identifies its customers and verifies that identity on the basis of documents, data or information obtained from a reliable source. Where there is a beneficial owner who is not the customer then the Council must identify that person and verify the identity and where the beneficial owner is a trust or similar then the Council must understand the nature of the control structure of that trust. Finally the Council must obtain information on the purpose and intended nature of the business relationship. The MLR 2017 introduces the need for the Council to consider both customer and geographical risk factors in deciding what due diligence is appropriate.

Worcestershire County Council: Anti Money Laundering Policy

7.9 The checks described in the paragraph above must generally be undertaken by the Council before it establishes a business relationship or carries out an occasional transaction, or if it suspects money laundering or terrorist funding or doubts the veracity of any information obtained for the purposes of identification or verification. However, the Council is not required to undertake these checks if its customer is another public authority, unless it suspects money laundering or terrorist funding.

7.10 The Council is also obliged to maintain ongoing monitoring of its business relationships which means it must scrutinise transactions throughout the course of the relationship to ensure that the transactions are consistent with the Council's knowledge of the customer and keep the information about the customer up-to-date.

Enhanced Customer Due Diligence and Ongoing Monitoring

7.11 It will in certain circumstances be necessary to undertake what is known in the Regulations as Enhanced Customer Due Diligence. In summary, this will be necessary where:

- The customer has not been physically present for identification purposes; or
- In any other situation which by its nature can present a higher risk of money laundering or terrorist financing.

7.12 Where this applies, the Council will need to take adequate measures to compensate for the higher risk. For example, this will mean ensuring that the customer's identity is established by additional documents, data or information.

7.13 Similarly, where the Council is in an ongoing "business relationship" with a customer, the Regulations impose a special obligation to carry out ongoing monitoring. This means that the Council must: scrutinise transactions undertaken throughout the course of the relationship to make sure that these transactions are consistent with the Council's knowledge of the customer, his/her business and risk profile; and keep documents, data or information obtained for the purpose of applying Customer Due Diligence measures up-to-date.

8. Record Keeping

8.1 Where the "relevant business" is carried out then the customer due diligence identification evidence and the details of the relevant transaction(s) for that client must be retained for at least five years.

8.2 The precise nature of these records is not set down in law but should be capable of providing an audit trail during any subsequent investigation.

9. Risk Management and Internal Control

9.1 The risk to the County Council of contravening the anti money laundering legislation will be assessed on a periodic basis and the adequacy and effectiveness of the Anti Money Laundering Policy will be reviewed in light of such assessments.

10. Further Information

10.1 Further information can be obtained from the MLRO and the following sources:

- Website of NCA – <http://www.nationalcrimeagency.gov.uk/> .

Worcestershire County Council: Anti Money Laundering Policy

- Proceeds of Crime (Anti Money Laundering) – Practical Guidance for Public Service Organisations – CIPFA
- Anti Money Laundering (Proceeds of Crime and Terrorism) – Second Interim Guidance for Accountants – CCAB – www.ccab.org.uk
- Money Laundering Guidance at www.lawsociety.org.uk

APPENDIX 1

CONFIDENTIAL Report to Money Laundering Reporting Officer

Re: Suspected money laundering activity

To: Money Laundering Reporting Officer, (Chief Financial Officer) Worcestershire County Council

From:
[insert name of employee]

Directorate: Ext/Tel No:.....
[insert post title and Business Unit]

Details of suspected offence:

Name(s) and address(es) of person(s) involved:

[if a company/public body please include details of nature of business]

Nature, value and timing of activity involved:

[Please include full details e.g. what, when, where, how. Continue on a separate sheet if necessary]

Worcestershire County Council: Anti Money Laundering Policy

Nature of suspicions regarding such activity:

[Please continue on a separate sheet if necessary]

Signed:..... Dated:.....

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

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AUDIT AND GOVERNANCE COMMITTEE 8 DECEMBER 2017

INTERNAL AUDIT PROGRESS REPORT 1 APRIL TO 30 OCTOBER 2017

Recommendations

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

Background

2. The attached progress report summarises Internal Audit work undertaken from 1 April to 30 October 2017 for consideration by the Committee.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sue Alexander, Interim Chief Financial Officer

Tel: 01905 846942

Email: salexander@worcestershire.gov.uk

Supporting Information

- Appendix - Internal Audit Progress Report 1 April to 30 October 2017.

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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worcestershire
county council

Internal Audit Progress Report

“Providing assurance on the management of risks”

Internal Audit Progress Report

“Providing assurance on the management of risks”

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

Summary of completed assurance work

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

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

Table 1: Summary of completed audits

Audit		Level of Assurance
1	Emergency Planning	Substantial
2	IT – Software Licensing	Moderate
3	Hospital Discharges – Patient Flow Centre	Substantial
4	Panel Process – Devolved Decision Making	Moderate
5	IT – Projects and Programmes	Substantial

2016/17 Plan

In addition, the following 2016/17 audits reported to Committee in the Internal Audit Annual Report dated 21 July 2017 have now been issued as final reports:

- Visits to Adult Social Care (ASC) establishments
- Business Continuity
- Main Financial System – Key Controls
- Final Account - Malvern Link & Foregate Street Station Enhancements
- Bromsgrove Rail Project
- Mental Health - Section 117

Three of these audits, Visits to ASC Establishments, Final Account - Malvern Link & Foregate Street Station Enhancements and Bromsgrove Rail Project were given a limited opinion. These have all been considered by Strategic Leadership Team and a summary of the key issues arising is given in Appendix A.

Since the last report to Committee one additional audit of Payroll has been agreed with the Chief Financial Officer for deletion from the 2016/17 plan due to processes changing as a result of the Mercury project.

Our work on 2016/17 jobs is now complete but we are awaiting responses from management on two jobs before they can be finalised:

- Information Management. Recommendations have been agreed but we are still awaiting information on implementation dates.
- IT – Recovery Arrangements – draft report issued.

2017/18 Plan

There is one change in the 2017/18 audit plan being proposed. There is a potential change in law in respect of Deprivation of Liberty Safeguards (DoLS), therefore the Director of Adult Services has proposed deferring this audit until the outcome of these changes is known. It is proposed to replace this audit with additional work on Section 117 of the Mental Health Act. An audit was carried out earlier in the year which identified a number of risks but further work would be useful to cover internal processes and compliance to those processes. This change has been agreed by the Interim Chief Financial Officer.

Progress against the 2017/18 plan has been impacted by maternity leave, sickness and auditors leaving but steps have been taken to fill vacancies and temporary staff have been engaged. We are forecasting that by end of the year the majority of the plan will be completed.

Recommendations

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance, are: Merits Attention, Significant and Fundamental. Each audit report includes an action plan which includes target dates for implementing the agreed recommendations. Managers are accountable for implementing these action plans. The appendices, which are based on information provided by the relevant managers, summarise progress on implementing agreed audit recommendations.

Appendix B summarises all the recommendations arising from the audit reports issued in 2017/18. Not surprisingly a number that are not already implemented are not yet due for implementation.

Appendix C summarises those recommendations arising from reports issued in 2016/17 and progress on implementing these recommendations. Information is also included on the status of fundamental recommendations.

Appendix D shows the outstanding recommendations from 2015/16. Work is continuing on implementing 9 recommendations but it is particularly disappointing that managers have not responded to requests for a status update on another 3 recommendations.

Summary of non-assurance work

Counter Fraud

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

- The Council referred an allegation of a Company fraudulently claiming grant funding from the Council to the Police earlier in the year. This case was originally deemed by the Crown Prosecution Service (CPS) as having insufficient evidence to prosecute, however this decision was appealed. The CPS Specialist Prosecutor has now ruled that a prosecution should be brought against the company for the offence of fraud by false representation.
- Work is underway into an allegation of fraudulent ill health retirement and the outcome will be reported in due course.

Internal Audit continues to act as the lead co-coordinator for the National Fraud Initiative. Work is continuing on reviewing the matching but to date no issues have arisen.

Certification

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

- Youth Justice
- Rural Growth Fund
- Bus Service Operators Grant
- Stronger Families

These were all satisfactorily audited by the required deadlines.

Advice

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

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

Adults – Financial Assessments

The Director of Adult Services asked Internal Audit to conduct some advisory work on Financial Assessments. The objective of this work was to provide advice on ensuring that income from service users is maximised through a detailed analysis of a sample of cases. Specifically, the scope of the work was as follows:

- Service users have maximised their income;
- Processes are in place to ensure all assets are taken into account;
- The value of allowable expenses is appropriate;
- Minimum Income Guarantee is applied appropriately; and
- Charges are properly applied with appropriate evidence to support the outcome; and
- If improvements could have been made to the above then, where possible, the financial difference on each case will be identified.

HR Advisory work

We have been holding regular meetings with representatives from Human Resources to discuss risk and control issues. These include the controls around new starters and the checks that are undertaken regarding proof of identity and checks to ensure that new starters are bona fide.

Direct Payments (Children)

We have been providing ongoing advice to management and have held regular meetings to advise on controls and the implementation of the agreed recommendations made in the Internal Audit report of April 2017. The key elements of the advisory work were with regard to the formal policy on Direct Payments and the controls around unspent funds, as well as strengthening other existing processes.

The Hive - Governance Arrangements

We were asked to provide advice on governance arrangements at The Hive. Meetings were held with the Business Development Manager regarding the role of sub-groups of the Strategic Services Board and their purpose and remit. Advice was also given on reporting channels and the limits of delegated authority.

Internal Audit continues to attend regular meetings of various corporate groups and provides advice and guidance as required.

Reports for Publication

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

- Emergency Planning
- IT – Software Licensing
- Hospital Discharges – Patient Flow Centre
- Panel Process – Devolved Decision Making
- Visits to Adult Social Care establishments
- Business Continuity
- Main Financial System – Key Controls
- Final Account - Malvern Link & Foregate Street Station Enhancements
- Bromsgrove Rail Project
- IT – Projects and Programmes
- Mental Health - Section 117

This list includes the 2016/17 reports finalised since the Annual Audit Report.

Published reports can be accessed by the following link:

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

Appendix A: Summary of Limited Assurance Audits

Bromsgrove Railway Project

The objective of this audit was to provide an opinion on the overall arrangements in place with regard to Worcestershire County Council's involvement in the Bromsgrove Railway Project including the risks and issues associated with a project of this nature.

The review identified the following key concerns:

- The total projected cost of the project was £17.4m with Worcestershire funding £5.5m but the report to Cabinet was not clear that this was an open-ended agreement and that the Council was responsible for at least 30% of all implementation costs, irrespective of any cost overruns. The Cabinet report makes reference to costs being shared but there is no evidence available to support how these cost-sharing proportions were arrived at.
- Although the works have now been completed the final costs are still not known but the latest forecast of £7.725m suggests that the final costs will exceed the amounts approved by Cabinet of £6.7m. This increase in costs has not yet been reported to Cabinet.
- Within the original Business Case a Financial Appraisal was undertaken which demonstrated that the project should generate a surplus at the end of the 30 year period but this has not been re-worked yet to take into account increased costs and actual car park income now that the station has fully opened, although this is currently being worked on.

Director's comments.

The construction of the new railway station at Bromsgrove has not only provided an excellent new facility for rail users of all abilities with a 350 space car park and bus interchange but it was also a necessary precursor to electrifying the line which will enable a step-change in the frequency of trains between Bromsgrove and Birmingham next year. This would not have been possible without the development and delivery partnership that was established between the County Council and the West Midlands Combined Authority. It is acknowledged that the cost of the scheme exceeded that originally envisaged in the Cabinet reports largely due to the extent of contamination and uncharted infrastructure found at the site which was a former oil depot. All additional costs were rigorously challenged by a specialist team on behalf of the partners resulting in a reduction in costs of over £6m. Despite the increased cost of the scheme, it is important to note that it is forecast that the Authority will still be able to pay back the prudential borrowing necessary to deliver the scheme within the target period of 25 years because of an enhanced funding package negotiated with the Department for Transport. Complex, contentious and innovative contracts and agreements of this nature are now overseen by the E&I Leadership Team rather than individual Heads of Service and some of the lessons learned from this project have already been applied to other schemes.

Final Account - Malvern Link & Foregate Street Station Enhancements

The objective of this audit was to provide an opinion on the overall arrangements for agreeing the Final Account in relation to the contract for the enhancement work undertaken at Malvern Link & Foregate Street Stations. The overall budget for the scheme was £2.04m and the final cost was £2.056m but, within this budget, whilst the original net contract sum was £997k the value of the final account was £1.415m. It is acknowledged, however, that the additional costs were approved by the Project Team and fully funded. It is also recognised that the Final Account for the contract was rigorously negotiated with the Contractor before approval.

Our key concerns include:

- It is apparent from a review of Project Manager's Instructions (PMI's) that extensions of time were required due to a number of issues including the need for design clarification at both stations. This contributed to the projects not being completed within the planned timescales as well as the final account for the contract exceeding the contract sum.
- Whilst there was a reduction of £5,000 in the design fees, the extent to which this covers extension of time costs due to design issues is unclear. It is understood from discussions with the Programme & Commissioning Manager that the payment was made as a "without prejudice" goodwill gesture and does not demonstrate design faults.
- The activity schedule and list of preliminaries in the successful tender submission was not broken down into sufficient detail and consequently, some of the costs had to be agreed during the process of producing the final account.
- There was a lack of supporting information to assist in determining costs for inclusion in the final account. Of 8 PMI's reviewed, there was only one instance in which a cost had been agreed with the contractor. It is understood from the Programme & Commissioning Manager that the Council's QS was asked to provide cost estimates before the contractor was instructed to carry out work and that not to have instructed the work would also have introduced delays to the schemes.

Director's comments.

The refurbishment of Malvern Link and Foregate Street Stations has greatly improved facilities for the travelling public and Malvern Link Station has even been shortlisted for a heritage award. It is acknowledged that the final contract sum was greater than predicted largely due to the historic nature of the stations and the need to complete additional remedial work. However, it is important to note that the projects were less than 1% over budget and that over 70% of the funding for the schemes came from the Department for Transport. The project management, procurement and delivery of major projects in E&I now incorporates a more robust project management framework, including the use of specialist (in this case rail) external advice, design and project management teams that are better placed to identify and deal with emerging issues earlier in a project's lifecycle.

Visits to Adult Social Care Establishments

The objective of the audit was to provide an opinion on the arrangements in place within Adult Social Care establishments covering cash handling including both County Council funds and monies held on behalf of service users. The level of cash transactions processed by the establishment was also examined to assess whether cash handling within the Directorate could be reduced.

Our key concerns are as follows:

- Although staff receive initial finance training there are no procedure notes available to provide guidance and ensure processes are standardised across all establishments.
- Instances were identified where one member of staff was responsible for receiving, recording and banking income resulting in a lack of appropriate separation of duties.
- Official Worcestershire County Council receipts are not issued by all establishments.
- At one establishment official receipts were being issued for amounts of monies held on behalf of service users. These amounts were not due to the Council and so were not paid into the bank.
- Significant amounts of cash were being held on behalf of service users at one of the establishments visited, with 2 residents having more than £500 each in the safe. As monies held on behalf of service users are not official County Council funds they are not covered by the authority's insurance policy.
- A number of issues were identified relating to Leisure Link, a Worcestershire County Council service which operates from Worth Crescent. These included the use of unofficial bank accounts, income not being banked promptly, cash collected being held off site and a lack of reconciliation of amounts collected to those paid into the bank.

Director's comments.

The audit highlighted several areas that needed improving and made recommendations to minimise the risks associated with these. All recommendations have been implemented fully, and closer monitoring of the processes used within services is now being undertaken. In addition, financial procedures are now a standard part of one to one supervisions with those Managers who have responsibility for handling cash in their services.

Appendix B: Status of Recommendations Made in the Period 1 April to 30 October 2017

Audit	Number of Recommendations					
	Made	Risk Accepted ¹	Redundant ²	Implemented	Not yet due to be implemented ³	Outstanding ⁴
Adult Services						
Visits to ASC Establishments	11	0	0	11	0	0
Panel Process - Devolved decision making	6	0	0	0	6	0
Hospital Discharges - Patient Flow Centre	3	0	0	1	2	0
Mental Health – S117	4	0	0	1	3	0
Commercial & Change						
ICT Software Licensing (16-17)	2	0	0	0	2	0

¹ These are recommendations which have not been accepted or were accepted originally but subsequently the responsible manager decided not to implement.

²Recommendations were valid at the time of the audit and accepted by management but circumstances have changed since the audit and the recommendation is no longer appropriate.

³ The agreed target implementation date has not yet been reached

⁴ The agreed target implementation date has passed and implementation is therefore overdue

	Number of Recommendations					
Audit	Made	Risk Accepted ¹	Redundant ²	Implemented	Not yet due to be implemented ³	Outstanding ⁴
Business Continuity	3	0	0	0	3	0
IT Projects & Programmes	1	0	0	0	1	0
Economy & Infrastructure						
Final Account - Malvern Link & Foregate Street Station Enhancements	3	0	0	0	3	0
Bromsgrove Rail Project	4	0	0	1	3	0
Public Health						
Emergency Planning	2	0	0	0	2	0
Finance						
Main Financial System -Key Controls	3	0	0	2	0	1 ⁵
	42	0	0	16	25	1

⁵ Partially implemented

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

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Adult Services									
Adults - Care Plan Review	1	0	0	1	0	0	0	0	Y
Adults Case Files	6	0	0	3	0	0	0	3 ⁵	Y
Adults Commissioning and Placement Process	1	0	0	0	0	0	0	1 ⁵	Y
Adults Financial Assessments	1	0	0	1	0	0	0	0	N/A
CQC Home Closures	4	0	0	4	0	0	0	0	N/A
Adults Safeguarding	1	0	0	1	0	0	0	0	N/A

⁵ Partially implemented

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Economy & Infrastructure									
Permits/ Access to Highway	4	0	0	2	0	1	1	0	N
Economic Development	3	0	0	3	0	0	0	0	N/A
Transport Infrastructure Funding	6	0	0	5	0	0	1	0	N
Section 106 Agreements	6	0	0	0	0	1	4	1	N
Children, Families and Communities									
Placements in Residential Care	8	0	0	8	0	0	0	0	N/A
Connecting Families	5	0	0	1	0	0	4	0	Y
Learning & Achievement	1	0	0	1	0	0	0	0	N/A
Children's Edge of Care Programme	3	0	0	3	0	0	0	0	N/A

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
School Visits – St James	8	0	0	8	0	0	0	0	N/A
School Visits - Fort Royal	13	0	0	13	0	0	0	0	N/A
School Visits - Belbroughton	5	0	0	5	0	0	0	0	N/A
School Visits - The Forge PRU	6	0	0	4	0	0	0	2	Y
School Visits - St Catherine's Primary	8	0	0	7	0	0	1 ⁵	0	Y
School Themed Audit – Carry Forward Balances	2	0	0	2	0	0	0	0	N/A
Use of Consultants	3	0	0	3	0	0	0	0	N/A
ICT Infrastructure	16	0	0	9	0	1 ⁵	5 ⁵	1 ⁵	Y
Access Controls	8	0	0	7	0	0	1 ⁵	0	Y

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
IT Commissioning	2	0	0	2	0	0	0	0	N/A
Financial and Commercial Management skills	3	0	0	3	0	0	0	0	N/A
Capital Expenditure	8	0	0	3	0	5 ⁵	0	0	Y
Treasury Management	3	0	0	3	0	0	0	0	N/A
Creditors	5	0	0	3	0	2 ⁵	0	0	Y
Improvement and Efficiency West Midlands	5	0	0	5	0	0	0	0	N/A
Pensions Investment Management	1	0	0	1	0	0	0	0	N/A
	146	0	0	111	0	10	17	8	

⁵ Partially implemented

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

Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Number of Recommendations			Response Rec'd Y/N
						Outstanding (Months)	0 to 3	3 to 6	
Adult Services									
Adults Case File	2	0	0	1	0	0	0	1	Y
Children, Families and Communities									
School Visits - St James	1	0	0	1	0	0	0	0	N/A
School Visits - Fort Royal	2	0	0	2	0	0	0	0	N/A
School Visits - The Forge PRU	2	0	0	2	0	0	0	0	Y
Commercial & Change									
ICT Infrastructure	1	0	0	1	0	0	0	0	N/A
Access Controls	1	0	0	0	0	0	1	0	Y
	9	0	0	7	0	0	1	1	

Appendix D: Outstanding 2015/16 Recommendations.

Audit	Recommendations			Target Implementation Date
	Made	Response received – Action Ongoing	No response	
Highways Customer and Community	3	0	1	01/06/2017
Flood Management	3	2	0	01/08/2016
SEN(D) Transport	5	1	0	31/12/2016
Foster Payments	6	1	0	31/12/2016
Direct Payments - Children	9	2	0	31/08/2016
Job Evaluation	2	2	0	30/06/2017
Business Ownership of Systems and Assets	2	1	0	31/12/2016
Pensions Administration	3	0	2	31/12/2016
Total	33	9	3	

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AUDIT AND GOVERNANCE COMMITTEE 8 DECEMBER 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

16 March 2018

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

26 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

21 September 2018

Internal Audit Progress Report 2017/18
Counter Fraud Report
External Quality Assessment

14 December 2018

Internal Audit Progress Report 2018/19
External Audit Letter 2017/18
Corporate Risk Report

Contact Points

County Council Contact Points
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Worcestershire Hub: 01905 765765

Specific Contact Points for this report

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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