Worcestershire County Council

Agenda

Audit and Governance Committee

Friday, 16 March 2018, 10.00 am
County Hall, Worcester

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DISCLOSING INTERESTS

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

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

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

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

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Simon Mallinson Head of Legal and Democratic Services July 2012 WCC/SPM summary/f

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Audit and Governance Committee
Friday, 16 March 2018, 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

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1	**Apologies and Named Substitutes**	
2	**Declarations of Interest**	
3	**Public Participation** *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 15 March 2018). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.*	
4	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 8 December 2017. (previously circulated – pink pages)	
5	**Final Accounts 2016/17 - Lessons learned update report**	1 - 24
6	**HR/Finance systems Implementation - Lessons Learned Report**	25 - 34
7	**External Audit Plans - Worcestershire County Council and Worcestershire County Pension Fund**	35 - 72
8	**External Audit Plan - Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund**	73 - 100
9	**Internal Audit Progress Report 1 November to 31 January 2018**	101 - 108
10	**Work Programme**	109 - 110

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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

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

Date of Issue: Wednesday, 7 March 2018

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AGENDA ITEM 5

AUDIT AND GOVERNANCE COMMITTEE
16 MARCH 2018

FINAL ACCOUNTS 2016/17 - LESSONS LEARNED UPDATE REPORT

Recommendations

1. **The Interim Chief Financial Officer recommends that:**

   a) **The Lessons Learned update report be noted;**

   b) **The review of the technical accounting policies be noted; and**

   c) **The Chairman and Vice Chairman of the Committee be provided with regular updates on any issues that may arise with the closing of the 2017/18 accounts.**

Background

2. The statutory deadline for publishing the 2016/17 audited set of accounts was 30 September 2017. Members will be aware from previous reports to Committee that the statutory deadline was not met, with the Final accounts pack including the statement of accounts being approved by this Committee on 13 October 2017.

3. The Interim Chief Financial Officer provided a "Lessons Learned" report to the Committee on 8 December 2017 which examined the issues leading up to the publication of the accounts and what lessons needed to be learned. It was particularly important given the statutory deadline for the final accounts publication for 2017/18 has been brought forward to 31 July 2018 (Minute no. 439 refers).

4. It was acknowledged in the previous report that there was still significant work to be done and this will be closely monitored over the coming months. It was recommended that Committee receive an update report on progress at its next meeting in March 2018. This report examines the progress made since the last meeting, and what further work needs to happen in advance of the next Committee meeting on 26 July 2018.

Findings and actions

5. A number of actions were identified in the previous report, some of which were already in place in preparation for the 2017/18 final accounts process. This included ensuring that the experienced Finance Manager resumed the role of being the named point of contact with External Audit, taking responsibility for coordinating all queries as they arise. The External Auditors noted that the action plan was very demanding and the Council was also faced with added pressure of producing the 2017/18 accounts using the new ledger for the first time within a compressed timescale.

6. The table below provides an update on the progress made since the last report to Committee under the key themes identified.

Finding	Progress made
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.	The Finance Leadership team meets every fortnight, with additional meeting programmed as required. There is a standing item "Final Accounts". The lead officer has provided a highlight report to every meeting, and this will continue. This includes current activities, planned activity for the coming two weeks and any risks or issues identified, mitigation for which are discussed and agreed.
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.	Early planning meetings have taken place with Grant Thornton auditors. Meetings have taken place with Place Partnership regarding the technical aspects of valuations necessary and instructions have been given. The final accounts team are liaising with Economy and Infrastructure staff client managers with regard to enabling access to information retained by Mercia Waste relating to the valuation of the Energy from Waste site plant and equipment. Officers have attended Grant Thornton 'Chief Accountant' training to consider issues and changes to the final accounts process and have already been in discussion with Grant Thornton auditors on some of the key areas which will need action. Grant Thornton's Good Practice checklist has been completed and included at Appendix 1. The early audit took place 22 January 2018 to 2 February 2018. The process was generally positive with an improvement in the quality and timely provision of information. We are working with Grant Thornton to agree further improvements. There were a number of actions agreed from the audit which have been implemented.

Finding	Progress Made
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.	The project plan has been agreed with External Audit colleagues. It is acknowledged as a very challenging plan given that the accounts are being run from reports within a new ledger system. The single point of contact is Jenni Morris, Finance Manager.
Quality Assurance 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.	The first early audit took place from 22 Jan 2018 to 2 February 2018. The interim audit takes place 5 March 2018 to 16 March 2018. The initial requests for information for the early audit received some oversight from Finance Leadership team. Feedback from the initial responses was positive, but there are still improvements that can be made, which are being worked through with Grant Thornton.
Technical Judgements There was not collective "ownership" regarding the key judgements made in compiling the accounts.	Accounting policies have been reviewed, and comments from Grant Thornton incorporated. The latest version is attached at appendix 2. We have also reviewed our process for including material estimates and critical judgements; these will be finalised during the full year-end audit. Further work around confirming significant technical judgements around pensions prepayment are planned to be worked through during late February/ March 2018.
Managing Relationships / Communication 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.	There has been regular communication across Financial Services and other services outside of Finance, led by the experienced Finance Manager. This started with a "Launch of the Statutory Accounts" meeting on 5 December 2017. There have been specific training workshops around specific areas that caused issues in the 2016/17 audit, and feedback has been given to the early audit that took place for 2 weeks from 22 January 2018.

Systems and Processes 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.	The closing of the accounts to an earlier timescale, with a new financial system was noted as particularly challenging. Whilst testing has begun on the key systems outputs necessary to ensure the accounts can be closed this is not yet complete. The Council is currently working on reproducing the 2016/17 statements using information from the e5 system. This is an opportunity to ensure that the reports can be extracted as required and also confirm our 2017/18 opening balances. In initial review of trial balance took place during the January audit and the other statements will be reviewed during the March audit. The process has highlighted some data quality amendments within the system which we are currently addressing. We have also identified some reports which are required to support the production of the accounts which will need to be specifically written and we are working with the Council's Systems team to deliver these. There is a particular issue regarding the reporting of journals which is being followed up. There is continuing work to review the output from Liberata from their year-end dry run for both reporting and process. The Council continues to work closely with Liberata to ensure control account reconciliations are up to date by 31 March 2018, and to consider the activities required for the system year end. A risk to the process is the ability to provide assurance as to the effectiveness of reconciliation processes around the financial system. To date, this is extremely challenging work and is the current focus of intensive efforts to work through these risks as we move towards financial close Internal Audit teams from the Council and Liberata are currently carrying out assurance work which will report by the end of the financial year.

Finding	Progress Made
Training/Expectations 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.	Training material has been refreshed – the initial launch material included lessons learned from the 2016/17 audit. There have been workshops on specific areas: 12 December 2017 am - Termination payments 12 December 2017 pm – Working papers February 2018 – meetings with finance staff following interim audit work undertaken to discuss common feedback and to identify training requirements
Staffing 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.	Staffing has been reviewed, with the experienced central finance staff returning to their substantive roles. There have been some vacancies within the team. Whilst these were recruited to in December 2017, the staff did not take up post until 3 January 2018. The central finance team is now fully staffed and this is supplemented by additional temporary staff experienced with working on the Council's finance system to support residual code reconciliation work and clearing suspense accounts.

Summary

7. The last report acknowledged that there were many lessons to be learned from the finalisation of the accounts process for 2016/17. Whilst the experienced in house team are in place and there is an increased level of scrutiny and governance at finance leadership team, the main challenge will be the ability to ensure the necessary reports are available from the new financial system within the timeframe required.

8. Overall, the interim audit work has gone well and to plan. There have been examples where improvements to the information provided to the external auditors can be made, and this is being addressed through training and a continued focus on quality assurance.

9. The Council is currently reproducing the 2016/17 key financial statements and as a result have identified some process improvements for extracting the information from e5 (the financial system). This includes specifying and scoping additional reports from both the payroll and financial system. We have also identified some data quality improvements which we are addressing. There is continuing work to review the output from Liberata from their year-end dry run for both reporting and process.

10. The Interim Chief Financial Officer will ensure that the Chairman and Vice Chairman of the Committee are kept fully briefed of developments as we work towards the key deadlines for accounts closure.

Contact Points

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Specific Contact Points for this report
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Supporting Information

- Appendix 1 – Good Practice Checklist
- Appendix 2 – Accounting policies

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

Good practice checklist Grant Thornton – Final Accounts

Leadership and planning	Y/N/P	Comments
Has the authority clearly defined roles and responsibilities across the organisation in relation to its financial reporting?	Y	Clear financial management structure – responsibilities defined between corporate and directorates in audit plan
Has the authority clearly communicated the statutory timetable and its commitment to faster closing, both to officers and members?	Y	Audit timetable sent out to key officers Jan 2018 Reported to Audit and Governance Dec 2017
Has senior management signed up to the plans/taking an active role to promote its importance/benefits that will result?	Y	Finance leadership team (FLT) actively engaged – standing item on every meeting SLT/WLT verbal briefings
Are members and senior management routinely updated on the progress made in delivering the authority's closedown plans?	Y	FLT - highlight report every meeting Audit and Governance Committee updated every meeting Chair Audit and Governance regular updates Cabinet member finance regular briefings
Has the authority ensured that audit committee and council meetings are brought forward to reflect the earlier timetable?	Y	Yes – Audit Committees 16 March 2018 26 July 2018
Project planning		
Has the authority appointed a project manager, of sufficient seniority within the finance team, to oversee the delivery of the project?	Y	Finance Manager appointed from within existing staff– as reported to Audit and Governance Committee Dec 17
Have the necessary staff resources been identified to support the delivery of the project and the impact this will have on their other responsibilities?	Y	Resourcing considered at FLT Interim resource commenced Jan 2018
Are all individuals aware of their responsibilities for preparing each section/note of the accounts?	Y	Initial briefings taken place December 2017, including HR/Liberata/systems staff Further briefings booked in Detailed Final Accounts plan and timetable
Has a realistic project plan been developed, setting out detailed timelines for completion of tasks, who will complete these and contingency for unforeseen issues?	Y	Completed by project manager Regular updates provided to FLT ensure quick resolution
Has the authority identified the potential blockages and barriers in the delivery of its plans and identified actions to address these?	Y	Risks and issues log Actions include CFO discussions with partners
Is this project plan supported by clear financial procedures and closedown instructions to ensure clear communications to officers of requirements?	Y	Closedown instructions completed and circulated

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?	Y	Dry run of closedown with new system, to provide skills training Finance project team ensures shared ownership
Has the authority established a committee/group to routinely monitor the progress against plans and ensure these stay on track?	Y	FLT Audit and Governance Committee
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?	Y	Lessons learned report - Audit and Gov Dec 2017
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?	Y	Procedures reviewed as part of implementation of E5 and updated where necessary Review of manual processes ongoing
Has the authority reviewed financial procedures and tasks to identify scope for streamlining, modification and improvement?	Y	See above
Have all routine financial tasks been performed on a timely basis throughout the year to avoid additional procedures required at year end?	P	Not completed at the start of the year but are now up to date to avoid additional procedures 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?	N/A	Routine management reporting restricted to budget monitoring so not directly relevant to final accounts
Has the authority undertaken an in year interim hard close of its accounts to identify any possible issues early?	P	A dry run of year end processing being completed February
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?	Y	Completed Government briefings proactively reviewed
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?	Y	Completed and shared with External Audit To be reported to Audit and Governance March 2018
Has the timetable and procedures built in sufficient time for quality assurance checks of the accounts and supporting working papers?	Y	Clear timetable
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?	Y	Completed
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	Y	Early engagement taking place with partners Feb 2018
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?	Y	Completed
Has the authority spoken to its suppliers and contractors to	P	Communication to take

ensure that arrangements for year-end processing and payment of invoicing is managed effectively?		place with suppliers in Feb/March 2018
Has the authority discussed information requirements and timetables with other partner public bodies relating to any shared services and partnership working arrangements?	Y	Completed
Working effectively with auditors		
Has the authority shared its closedown project plans with its auditors and agreed key dates and milestones?	Y	Completed
Has the authority discussed and agreed respective responsibilities and set clear expectations on the accounts preparation and audit processes?	Y	Completed
Does the authority communicate with its auditors on a regular basis to discuss emerging accounting issues and progress against plans?	Y	Ongoing
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?	N	To be completed during March 2018
Has the authority discussed and agreed its working paper requirements to support the completion of the audit?	Y	Completed
Has the authority and auditor shared their staff availability and holiday commitments so that these can be reflected in the work timetables?	P	To be completed by March 2018
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?	Y	Interim audit plan
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?	N	Programmed for March audit
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?	Y	CFO/Finance Managers Lessons learned report mirrored GT Annual Audit letter 2016/17

Checklisted completed/reviewed
Finance Leadership Team
22 Jan 2018

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Accounting Policies – Summary of changes

As part of the annual statutory accounts process we have reviewed and updated our accounting policies. The main changes are:

- We have removed accounting policies where there are no material disclosures in the statutory accounts. This will make it simpler for the reader of the accounts to identify key information

- Valuation of property, plant and equipment – previously assets were valued on a rolling 5 year programme with at least 20% of each asset class valued annually. In accordance with the CIPFA Code of Practice, and to assure our External Auditors of the accuracy of our annual valuations, we have moved to requiring a whole asset class to be valued at a time. For example rather than valuing 20% of primary schools and reviewing the potential impact this has on the remaining schools, we will now value all primary schools in the same year. There will be a transition period where we will need to value whole asset classes and some partial asset classes to ensure that we meet the requirement to value all assets at least once in a 5 year period.

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Accounting Policies

General Principles

The Statement of Accounts summarises the County Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The County Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Accounting for Agency Income

Accounting for Council Tax

The Worcestershire district councils, in their role as billing authorities, act as agents for the County Council, the precepting authority, collecting council tax on our behalf, with transactions and balances allocated between the districts and the County Council. The Comprehensive Income & Expenditure Statement includes the County Council's proportion of the net surplus or deficit and the Balance Sheet includes amounts to reflect the County Council's share of council tax debtors, overpayments and council tax creditors and monies owed or paid in advance in relation to payments from the district councils.

Accounting for National Non-Domestic Rates (NNDR)

The district councils collect business rate income on behalf of the County Council as well as amounts to be paid over to other precepting bodies and Central Government. The County Council maintains balances for NNDR arrears, impairment allowances, prepayments and overpayments in its underling accounting records. NNDR transactions and balances are allocated between the County Council, the District Councils and Central Government.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

Better Care Fund

There is a Section 75 joint agreement relating to the commissioning of health and social care services in Worcestershire, which includes The Better Care Fund. It is a joint budget arrangement between Worcestershire County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group. Within the Section 75 agreement there are budgets controlled by the Clinical Commissioning Groups, budgets controlled by the County Council, pooled budgets (jointly controlled) and aligned budgets.

Where services are controlled by the County Council the income and expenditure is reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement. This also includes the County Council's proportion of jointly controlled budgets. Where services are hosted by the County Council, but controlled by the Clinical Commissioning Groups, the income and expenditure is not reflected in the County Council's accounts.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts where applicable.

Employee Benefits

Benefits Payable during Employment

Short-term benefits are those due to be wholly settled within twelve months of the year-end, including wages and salaries, paid annual and sick leave for current employees. They are recognised as an expense in the year in which the service is provided to the County Council.

Termination Benefits

Termination Benefits are payable as a result of a decision by the County Council to terminate an employee's employment before the normal retirement date or of an employee's decision to accept voluntary redundancy. They are charged in the year in which they are paid or on an accruals basis at the earlier of when the County Council can no longer withdraw the offer of those benefits or recognises costs for a restructuring.

Where termination benefits involve the enhancement of retirement benefits, the amount charged is the amount payable by the County Council to the Pension Fund or pensioner in the year rather than the amount calculated according to the relevant accounting standards.

Post-Employment Benefits

Post-employment benefits include pensions and retirement lump sums. Employees of the County Council may be members of:

- The Local Government Pensions Scheme (a defined benefit scheme), administered by the County Council itself under national regulations. Subject to certain qualifying criteria, other employees are eligible to join the Local Government Pension Scheme;
- The Teachers' Pension Scheme (a defined contribution scheme), administered by the Teachers Pensions Agency on behalf of the Department for Education. This is an unfunded scheme and the pension cost charged to the accounts is the employer's contribution rate that has been set by the Department for Education on the basis of a notional fund; or
- The NHS Pension Scheme (a defined contribution scheme), administered by the Department for Health. This is an unfunded scheme administered by the NHS Superannuation scheme.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. Employees who participate in the scheme earn benefits that will not be payable until retirement. The County Council has a commitment to make these payments and the accounts have been prepared to reflect the cost of providing retirement benefits in the accounting period in which they are earned.

Related finance costs and any other changes in the values of assets and liabilities are recognised in the accounting periods in which they arise, in accordance with International Accounting Standard 19 (IAS 19) and, on the advice of the Council's actuary, Mercer

Limited, Technical Accounting Standard R: Reporting Actuarial Information and Technical Accounting Standard D: Data, issued by the Institute and Faculty of Actuaries.

The liabilities of the Worcestershire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.

The assets of the Worcestershire County Council Pension Fund attributable to the County Council are included in the Balance Sheet at their fair value, which is the current bid price.

The change in the net pension's liability is analysed into the following components:

a) Service Cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned in the current year,
- past service cost - the increase in liabilities arising from a scheme amendment or curtailment relating to service earned in prior periods,
- gains/losses on settlement - the result of actions to relieve the County Council of liabilities for all or part of the employee benefits provided under the plan.

b) Net interest cost is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

c) Re-measurements comprising:

- actuarial gains/losses (changes in the net pensions liability that arise because events have not followed assumptions in the last actuarial valuation or because the actuary has changed his assumptions)
- return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset),
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

In relation to retirement benefits the General Fund is charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated by the relevant accounting standards. In the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows and not as benefits are earned by employees.

Events after the Balance Sheet Date

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is approved. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made of the nature of the events and their estimated financial effect.

Fair Value Measurement

Assets and liabilities are measured in accordance with IFRS 13 Fair Value Measurement and the relevant Code provisions. Fair value is the price that would be received to sell an asset or paid to transfer a liability at measurement date. The County Council either uses appropriate valuation techniques or external valuers, in accordance with fair value measurement guidance.

Operational property, plant and equipment focus on valuing their service potential and operating capacity used to deliver goods and services. Only where property, plant and equipment are classified as surplus are they required to be measured at fair value, representing a measure of financial capacity and the opportunity cost of holding such assets.

Fair value measurements follow the IFRS13 hierarchy, which categorises the inputs to valuation techniques:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability

Financial Instruments

Financial instruments are contracts that give rise to a financial asset or financial liability and are represented by investments, borrowings, debtors, creditors and cash equivalents. They are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of the Financial Instrument and are carried at amortised cost.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet once there is a contractual obligation and are initially measured at fair value and carried at amortised cost.

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at their amortised costs.

Financial Assets

Financial assets are classified as either:

- available for sale assets - those with a quoted market price and/or no fixed or determinable payments; or
- loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

Fair value of assets and liabilities

Financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of loans has been assessed at current market conditions by calculating the present value of the cash flows that take place over the remaining life of the loans.

The fair value calculations have been provided by the Council's Treasury Management advisors for PWLB loans, LOBO loans, PFI Liabilities, shares in unlisted companies and loans and receivables.

Government Grants and Third Party Contributions

Government grants and third party contributions and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors or receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line or to Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

Joint Arrangements

Joint Arrangements are activities undertaken by the County Council in conjunction with other entities to jointly control an asset. Joint control involves the contractually agreed sharing of control, such that decisions about the activities for the arrangement are given unanimous consent from all parties. Arrangements subject to joint control are classified as either a joint

venture, under which we have rights to share net assets, or a joint operation, under which we have rights to particular assets, and obligation for particular liabilities.

Leases

Lease arrangements entered into by the County Council are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment, including PFI contracts, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The County Council as a lessee – Finance leases

Finance leases are recognised on the County Council's Balance Sheet at the commencement of the lease and measured at fair value or the present value of the minimum lease payments if this is lower. The asset is matched by a liability for the obligation to pay the lessor. Lease payments are apportioned between:

- a charge for the acquisition of the interest in the asset which is applied to write down the lease liability, and
- a finance charge to the Comprehensive Income and Expenditure Statement.

The County Council as a lessee – Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense. Charges are made on a straight line basis over the life of the lease.

The County Council as a lessor – Finance leases

Where an asset is leased by the County Council to a third party as a finance lease the asset is written out of the Balance Sheet as a disposal, with the carrying amount of the asset charged the Comprehensive Income and Expenditure Statement. The County Council only has academy school asset transfers which fall into these category and these do not generate any rental income.

The County Council as a lessor – Operating leases

Where an asset is leased by the County Council to a third party as an operating lease the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the lease.

Local Authority Schools

The balance of control for local authority maintained schools lies with the local authority and the related assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements.

PFI schools are considered to be controlled by the County Council through the PFI arrangements and are recognised on the Balance Sheet. Voluntary Aided, Voluntary Controlled schools and Trust schools are owned by the Diocese, Church of England or a separate Trust and there are no formal rights to use the assets through licence arrangements passed to the school or Governing Bodies; as a result these schools are not recognised on the Balance Sheet.

Minimum Revenue Provision (MRP)

MRP is a charge to the Comprehensive Income and Expenditure Accounts for the repayment of external borrowing required to finance capital expenditure in accordance with the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008. The broad aim of the policy is to ensure that MRP is charged over a period that is broadly commensurate with the period over which the County Council receives benefit from the asset. The charge is calculated using the asset life method on an annuity basis for either:

- The average life of all assets at 31 March 2008 for pre-2008 debts, and
- The average asset class life for post-2008 debts, using schools, highways and other assets as our key categories.

In 2016/17 Council approval was given to align pre 2008 long-term borrowing to the post 2008 method of matching the debt repayment to the average asset lives.

Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the Code. The total absorption costing principle is used where the full cost of overheads and support services is shared between users in proportion to the benefits received.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under such schemes and as the ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year, are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The cost of assets acquired other than by purchase is at fair value, unless the acquisition does not have commercial substance (e.g. via exchange) where the cost of the acquisition is the carrying amount of the asset given up by the Council.

Properties are revalued at least every five years and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards 2014 UK Edition and are valued by an external suitably qualified valuer. A category of asset is chosen each financial year and revalued in entirety. Further revaluations are also carried out where there are known to have been material changes.

Where capital expenditure projects are practically completed in the financial year, the asset to which they relate will be revalued as long as the expenditure represents greater than 15% of the asset's opening net book value or is greater than £100,000.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Where there is no market-based evidence of fair value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) and assets that are not yet available for use (e.g. assets under construction). Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. An asset is not depreciated until it is available for use.

Depreciation is calculated on the following basis:

- depreciation is charged on a straight-line basis over the remaining useful life of the assets as estimated by the valuer;
- newly acquired assets are depreciated from the mid-point of the year.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and transfers

Amounts received for disposals in excess of £10,000 are categorised as capital receipts and used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the Capital Financing Requirement).

When a school converts to an Academy the transfer of the asset is for nil consideration.

Reserves

The County Council has set aside specific amounts as reserves for future policy purposes or to cover contingencies.

Reserves are reported in two categories:

Usable Reserves

Those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

Unusable Reserves

Unusable Reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and the reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the County Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Revenue Recognition

Revenue is recognised when the following conditions have been satisfied:

a) the amount of revenue can be measured reliably and
b) it is probable that the economic benefits or service potential associated with the transaction will flow to the County Council

There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, i.e. revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.

Revenue from the sale of goods is recognised when the County Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Accruals are raised for expenditure and income due in year but not made or received. Accruals are not made for amounts of less than £5,000, unless the manager feels it would improve the quality of information

Value Added Tax

Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors – to be included if required

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

worcestershire countycouncil

AGENDA ITEM 6

AUDIT AND GOVERNANCE COMMITTEE
16 MARCH 2018

HR/ FINANCE SYSTEMS IMPLEMENTATION - LESSONS LEARNED REPORT

Recommendation

1. **The Head of Commercial recommends that the governance arrangements associated with the HR/Finance systems implementation be noted.**

Background

2. The contract for the Human Resources (HR) and Finance Transaction services commenced on 1 February 2016. This involved the TUPE transfer of Worcestershire County Council employees and the use of the legacy system SAP. Liberata seamlessly transferred the service delivery from the Council and continued to deliver their services from County Hall, where they lease office space from the Council.

3. The contract with Liberata included the implementation of new finance (E5) and HR Systems (Itrent) in a joint transformation project which actively involved both the Council and Liberata in the activities, with accountabilities and responsibilities for the implementation set out in the contract.

4. The contract service delivery is managed through a Contract Management Board, which meets on a monthly basis, with both quarterly and annual review mechanisms in place. In addition to this, further governance measures were introduced for the implementation of the new systems. This then reported into the contract Management Board.

5. The new systems went live on 11 April 2017, and immediately issues were identified. This was actively managed by the Transformation Board, continuing to link in with the Contract Management Board.

6. As part of the commitment of the Council and Liberata to resolve the post live issues, an independent review into the implementation of the systems was commissioned by the Council. This report identified the lessons to be learnt and any outstanding issues that needed to be addressed and developed a 100 day plan for both the Council and Liberata to implement. The key messages from the report are shown in Appendix 1, with the 100 day plan shown in Appendix 2.

7. This report examines the issues identified in the post implementation review and what lessons will be learned to ensure that they are not repeated in any future projects and also to ensure any outstanding issues are addressed and remedied.

Review

8. The review was commissioned and was completed in November 2017. Any early issues identified in the review were addressed. The detailed review was completed by Socitm, who are the membership body for IT professionals in local government and the public sector. The scope of the review included:

- Successes
- Areas for Improvement
- Gaps
- Key learning
- Issues & Risks
- Recommendations
- 100-day improvement plan, to implement the report's recommendations.

9. Socitm were given access to over 1,000 documents to review, these documents were provided by both Liberata and the Council. They engaged with key stakeholders through 25 interviews, these stakeholders included the following:

- Council key stakeholders and staff involved in the iTrent and E5 implementation
- Finance and HR users involved in the implementation and Finance and HR users who now use the system post go live.
- Senior stakeholders who managed the implementation including the Programme Manager and the Senior Responsible Officer.
- The suppliers involved in the implementation including iTrent, E5 and Liberata
- Finance and HR subject matter experts from Worcestershire schools involved in the implementation and finance and HR users who now use the system post go live.

10. This report was published and proactively shared with stakeholders, which details the recommendations for rectification of the outstanding post go-live issues for schools in a comprehensive 100 day plan to also cover the implementation of the collaborative planning element for improved financial reporting. Liberata are actively working with the Council to collaboratively rectify issues and implement the 100 day plan.

11. The implementation of the plan is actively monitored, at an improvement Board which includes key stakeholders from both Liberata and the Council. The Board meetings include Head of Commercial, Interim Chief Financial Officer or their representative, Finance Lead, Head of HR and OD, Programme Managers from both the Council and Liberata, Liberata Contract Director, Liberata Managing Director.

12. It is a standing item on the Commercial and Change Directorate Leadership Meetings, to deal with escalations which is attended by Coach Head of service for Commercial, Legal, HR and OD and communications, and is closely monitored through the Contract Management Board.

13. In addition to this, regular operational meetings take place between the County Council service leads and Liberata on a monthly basis, with an increased frequency as required.

Impact on Audit of Accounts

14. It has been acknowledged in previous reports to this Committee that the issues with the system implementation meant that staff were diverted from the finalisation of accounts work. In addition there had been difficulties with extracting information from the new financial system. The closing of the accounts to an earlier timescale, with a new financial system was noted as particularly challenging.

15. The Lessons Learned update report shown elsewhere on the agenda highlighted the work that is currently taking place with Liberata to ensure that year end reporting is available for the closure of accounts process. Assurance work is being carried out by internal audit and by Liberata's auditors and are due to report in time for the final accounts completion,

Summary

16. There are many lessons to be learned from the implementation of the new HR/Finance system. The key messages contained in appendix 1 include issues around engagement of key stakeholders, particularly schools.

17. The improvement board and the contract management board actively manage the contract and activities. In addition, regular operational meetings take place between Council and Liberata staff. This includes specific meetings around closure of accounts issues.

Contact Points

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Supporting Information

Appendix 1 – Key findings of the review
Appendix 2 – 100 day plan

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.

Appendix 1

The key findings of the review:

- The project was set out well with a clear “outcomes” based requirement. The Service Transfer worked well and the first year of delivering the service alongside the old (SAP) system appears to have been successful. Changing the system, however, has severely disrupted the service.

- The review found that the Project went live on time and within budget. New functionality has been introduced which will allow the authority to become more efficient. The new systems will help the Council and schools to move away from traditional paper-based processes.

- Post go live there were significant issues for staff and disruption to services. A recovery plan was immediately put in place to begin to rectify the issues.

- The review finds that schools were not engaged with fully throughout the life of the Programme including participating in the user acceptance testing of the system.

- There have been significant issues with the quality of the deliverables and with the benefit of hindsight, the go live should have been postponed until the systems were properly ready.

100-day plan

One of the key deliverables Socitm produced is the 100-day plan articulating the activities that will need to take place to address current issues over and above the recovery plan being delivered by Liberata.

100-day plan assumptions:

- Socitm suggests the type of roles and FTE required for delivery of the activities suggested in the plan.
- Socitm assumes that the suggested resources will be made available in line with the suggested plan (starting from the 1/11/2017), however the plan should be adjusted in line with the resource availability across WCC and Liberata.

N	Task Name	Duration	Start	Finish	Predecessors	Responsible	'FTE	Required Roles	Comment
1	**Work with Liberata to set out and agree a clear Responsible, Accountable, consulted and Informed (RACI) for the service**	**15 days**	**Wed 01/11/17**	**Tue 21/11/17**		**WCC**	**2**	**Commercial Lead WCC, Liberata Commercial Lead**	**This may require an external support**
2	**Implement Technical Environments**	**20 days**	**Wed 01/11/17**	**Tue 28/11/17**		**Liberata**			
3	Provide and maintain an environment plan	20 days	Wed 01/11/17	Tue 28/11/17		Liberata	1	Liberata Systems Lead	Immediately
4	Ensure test and live are synchronised	20 days	Wed 01/11/17	Tue 28/11/17		Liberata	1	Liberata Systems Lead	Immediately
5	Report on the environment usage as part of SLAs	300 days	Wed 29/11/17	Tue 22/01/19	4	Liberata	1	Liberata Systems Lead	Ongoing activity in line with the environment plan WCC to maintain QA role
6	**Carry out Data Migration audit and load outstanding items (i.e. Supplier email addresses)**	**40 days**	**Wed 01/11/17**	**Tue 26/12/17**		**WCC**		**Liberata PM, Liberata DM Lead, WCC DM Lead**	**Immediately**
7	**Schools change management**	**60 days**	**Tue 17/10/17**	**Mon 08/01/18**		**Liberata**			

8	Validate schools' systems issues and carry out prioritisation exercise	10 days	Mon 13/11/17	Fri 24/11/17		Liberata		Liberata Schools Support Lead, WCC Schools Lead	Immediately
9	Fix existing system issues	60 days	Mon 27/11/17	Fri 16/02/18	9	Liberata	3	Liberata Project Manager, Liberata Schools System Support Lead, Liberata System Test Lead	A list of issues to be signed off by WCC
10	Create and execute the Schools Business Management Plan (Comms and Training Plan)	100 days	Wed 01/11/17	Tue 20/03/18		Liberata	1	Liberata Schools Comms Lead	This must be supported fully by the Council, it is recommended that the similar post created by WCC.
11	Visibly undertake a gap-analysis with users, have users sign off functional fixes and be part of the communications and training.	40 days	Mon 27/11/17	Fri 19/01/18	9	Liberata	2	Liberata Project Manager, Liberata Schools System Support Lead, Liberata System Test Lead	This activity will carry on beyond 100 day plan
12	Sign-off the gaps with WCC and agree the correction plan	10 days	Wed 27/12/17	Tue 09/01/18	12	Liberata	3	Liberata Project Manager, Liberata Schools System Support Lead, Liberata System Test Lead, Schools and Academies, Programme Board	Fully supported by WCC Schools and Academies Representative Lead
13	**Collaborative Planning (CP) Change Management**	**100 days**	**Tue 17/10/17**	**Mon 05/03/18**		**Liberata, WCC**			
14	Establish quality outcome based acceptance criteria	10 days	Wed 01/11/17	Tue 14/11/17		WCC	2	WCC CP Lead, Liberata Project Manager, WCC Programme Board	Immediately
15	Agree and apply ratcheted service credits for late delivery.	10 days	Wed 15/11/17	Tue 28/11/17	15	WCC	2	WCC Project Manager, Liberata Project Manager, WCC	Once established these will be applied if

								Programme Board	criteria isn't met
16	Establish Change Management plan for CP	10 days	Wed 15/11/17	Tue 28/11/17	15	Liberata	3	Liberata Project Manager, Liberata CP System Lead, WCC CP Lead, Schools and Academies CP Lead	
17	Implement Change Management plan for CP	90 days	Wed 15/11/17	Tue 20/03/18	17	Liberata	2	Liberata Project Manager, Liberata CP System Lead, WCC CP Lead, Schools and Academies CP Lead	
18	Implement Collaborative Planning (CP) deadlines	20 days	Wed 01/11/17	Tue 28/11/17		Liberata	3	Liberata CP System Lead, WCC CP System Lead, WCC CP End Users incl. Schools and Academies	N of days required to implement CP to be confirmed as a result of the project plan validation
19	Carry out UAT in line with the suggested by Advanced approach	40 days	Wed 29/11/17	Tue 23/01/18	19	Liberata	7	Liberata CP System Lead, WCC CP System Lead, WCC CP End Users incl. Schools and Academies	This must be aligned to the UAT plan and resource profile. Explore Schools Pilot
20	Invite Advanced to participate in the Change Management and Project Board for the duration of CP implementation	60 days	Wed 01/11/17	Tue 23/01/18		Liberata	0.2	Advanced Project Manager, Liberata Project Manager	
21	Ensure final CP solution meets the acceptance criteria	10 days	Wed 24/01/18	Tue 06/02/18	20	Liberata	7	Liberata CP System Lead, WCC CP System Lead, WCC CP End Users incl. Schools and Academies, WCC Programme Board	As part of gateway signoff
22	**Mercury Project Change**	**20 days**	**Tue 17/10/17**	**Mon 13/11/17**		**Liberata,WCC**			

	Management								
23	Establish improved Change Management Process	20 days	Wed 01/11/17	Tue 28/11/17		Liberata	3	Liberata Project Manager, Liberata Schools System Support Lead, Liberata System Test Lead	Overseen by WCC IT Lead
24	Re-launch CAB aligned to change best practice	20 days	Wed 01/11/17	Tue 28/11/17		Liberata	3	Liberata Project Manager, Liberata Schools System Support Lead, Liberata System Test Lead	Overseen by WCC IT Lead
25	Involve System Users to become key part of Change Advisory Board (CAB)	300 days	Wed 29/11/17	Tue 22/01/19	24	WCC	2.5	Nominated representatives across the Business and Schools and Academies; WCC IT Lead	Ongoing activity (no end date)
26	Ensure that System Users sign-off functional fixes (as part of the change management approach)	300 days	Wed 29/11/17	Tue 22/01/19	24	Liberata	2.5	Nominated representatives across the Business and Schools and Academies; WCC IT Lead	Ongoing activity (no end date)
27	Support Change plan with resources as contracted	300 days	Wed 29/11/17	Tue 22/01/19	24	Liberata	TBC	System Support Staff	Ongoing activity (no end date)
28	**Implement Service Design**	**70 days**	**Wed 01/11/17**	**Tue 06/02/18**		**Liberata, WCC**			
29	Implement a CRM based service delivery model	20 days	Wed 01/11/17	Tue 28/11/17		Liberata	3	Liberata Account Manager, Liberata Project Manager, WCC IT Lead	Work is underway already, needs to be in line with the design Overseen by WCC IT Lead
30	Ensure traceability between deliverables and requirements	20 days	Wed 29/11/17	Tue 26/12/17	30	WCC	3	Commercial Lead WCC, Liberata Commercial Lead, WCC IT Lead	Overseen by WCC Project Board
31	Implement Systems Performance	30 days	Wed 27/12/17	Tue 06/02/18	31	Liberata	3	Commercial Lead WCC, Liberata	Overseen by WCC Project Board

	Tracking process (SLA's dashboards)							Commercial Lead, WCC IT Lead	
32	**Implement Disaster Recovery (DR) and Business Continuity Planning (BCP) testing approach**	**20 days**	**Tue 17/10/17**	**Mon 13/11/17**		**Liberata**			
33	Plan a regular test invocation with Liberata	20 days	Wed 07/02/18	Tue 06/03/18	32	WCC	1	Liberata IT Lead	Overseen by WCC IT Lead
34	Ensure DR resilience in comms	20 days	Wed 07/03/18	Tue 03/04/18	34	WCC	4	WCC IT Lead, WCC Comms Lead, Liberata IT Lead, Liberata Comms Lead	Overseen by WCC IT Lead
35	Ensure access to the systems if Council site is vacated in emergency.	30 days	Wed 07/02/18	Tue 20/03/18	32	WCC	4	WCC IT Lead, WCC Comms Lead, Liberata IT Lead, Liberata Comms Lead	Overseen by WCC IT Lead
36	Deliver regular DR test invocations	300 days	Mon 11/12/17	Fri 01/02/19	35	Liberata	2	Liberata IT Lead, WCC IT Lead	Ongoing activity (no end date)

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AGENDA ITEM 7

AUDIT AND GOVERNANCE COMMITTEE
16 MARCH 2018

EXTERNAL AUDIT PLANS – WORCESTERSHIRE COUNTY COUNCIL AND WORCESTERSHIRE COUNTY PENSION FUND

Recommendation

1. **The Committee is asked to note the content of the Audit Plans for Worcestershire County Council and Worcestershire County Pension Fund as set out at Appendices 1 and 2.**

Background

2. Grant Thornton, the Council's external auditor has produced an external audit plan for the Council and Worcestershire County Pension Fund which are attached as Appendices 1 and 2.

3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the documents.

Contact Points

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Specific Contact Points for this report
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Supporting Information

- Appendix 1 - The Audit Plan for Worcestershire County Council
- Appendix 2 - The Audit Plan for Worcestershire County Pension Fund

Background Papers

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

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Grant Thornton

External Audit Plan

Year ending 31 March 2018

Worcestershire County Council

16 March 2018

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Worcestershire County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Worcestershire County Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • The revenue cycle includes fraudulent transactions (this is rebutted, please see page 5) • Valuation of Property, Plant and Equipment • Valuation of pension fund net liability • Implementation of the new financial system We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £15.232m (PY £15.232m), which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.761m (PY £0.761m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks: • Children's Services – progress on implementation of Ofsted action plan and progress on the Alternative Delivery Model • Financial sustainability of the Council • The ability to produce accurate and timely financial reporting • Arrangements for the commissioning of services from external parties

Introduction & headlines continued

Audit logistics	Our two interim visits will take place in January and March and our final visit will take place in May - July. Our key deliverables are this Audit Plan and our Audit Findings Report. The scale fee for the audit is £95,446 (PY: £95,446) for the Council. Actual fees may vary depending on the additional work required in respect of the new ledger system and the extent to which officers continue to improve the arrangements for accounts production.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

Children's Services

In January 2017, Ofsted rated Children's services as inadequate. Following a monitoring visit in September the inspectorate reported that tangible improvements had been made, however there was still a lot of work to do. In addition to this, the Council also have a statutory direction in place which requires them to move Children's Services into an Alternative Delivery Model. Work has already begun on this with an initial options appraisal completed. Officers are now completing more detailed work on the preferred models, and are due to report back in March.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

New Financial System

In April 2017 the Council implemented a new financial system with its outsourced provider Liberata. The implementation of a new financial system will always present challenges for the finance team as they transfer data and embed new ways of working. Given the earlier statutory deadline for the production of the accounts this year, it is key that this work is delivered in line with the timescales set out by officers.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Financial pressures

Like many other local authorities the Council faces significant financial pressures. For 2017/18 there have been pressures on those demand led services, in particular Children's and Adult Service. A £7.5m pressure was identified for Children's placements alone. Plans are in place to agree a balanced budget for 2018/19, however this will continue to contain challenging savings targets. Officers recognise that underlying cost pressure, use of specific grants and other reserves has significantly increased in 2017/18 from previous years, and have reviewed the strategic financial planning in light of this.

Changes in the Senior Management Team

Over the last 12 months the Council have seen significant changes to their senior leadership team, with the loss of the Chief Executive, Chief Financial Officer and Director of Adult Services. An experienced interim Chief Executive has been in post for 9 months, and a substantive appointee will shortly take up post. Other key appointments to this team are expected shortly. While it takes time for any new team to embed within the organisation, it is key that they continue to tackle the challenges faced by the authority.

Our response

- We will consider your arrangements for managing and reporting your financial resource as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.
- We will continue our dialogue with the finance team to ensure that all of the recommendations identified last year following the final accounts production process are appropriately followed up. Where our interim audit work identifies any risks to the achievement of early close we will report this to members.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Worcestershire County Council.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	We will: • Gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration. .	We will: • Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • consideration of the competence, expertise and objectivity of any management experts used; • review the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding; • testing of revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	We will: • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out; • undertake procedures to confirm the reasonableness of the actuarial assumptions made; and • check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
New Financial System implementation	The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements. We identified the implementation of the new financial system as a risk requiring special audit consideration.	We will: • Review the project plan for the system implementation and review any problems with the implementation and how these have been resolved; • complete tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances; • review the control accounts and bank reconciliations to ensure that appropriate financial control has been maintained throughout the period; and • review the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2018.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage (23%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	We will • Evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • obtain the year-end payroll reconciliation and ensure the amount in the accounts can be reconciled to the ledger through to the payroll reports and investigate significant adjusting items; and • agree the payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness.
Operating expenses	Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	We will • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • document the accruals process and controls management have in put in place; and • obtain a listing of non-pay payments made in April, take a sample and ensure that the transactions have been coded to the appropriate year.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

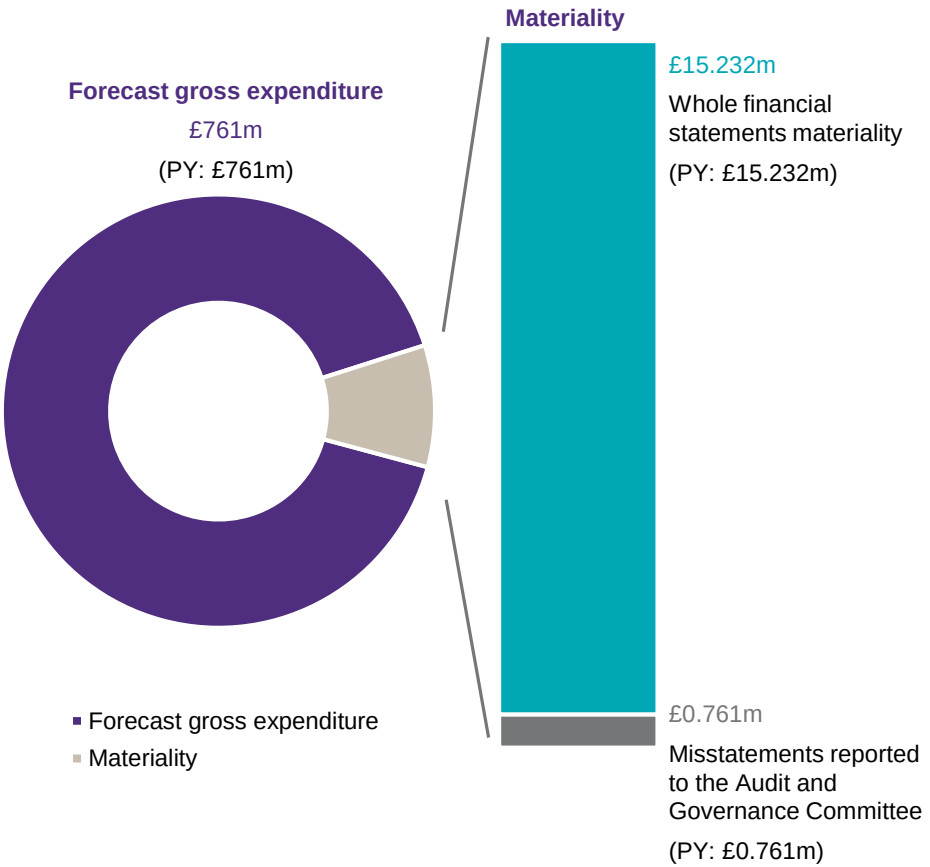
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £15.232m (PY £15.232m), which equates to 2.00% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.761m (PY £0.761m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Matters discussed with management during the interim visit

As per the timeline agreed with management on page 14 we have already completed one interim audit visit. Prior to the visit we held discussions with officers and agreed the work that would be undertaken in both the audit visit in January and also that planned for March. The table below highlights the key areas and actions required.

	Matter	Commentary
1.	Availability of the required reports from the new financial system for both the production and audit of the financial statements	We have discussed in detail with the finance team the reports that are likely to be required for the production and audit of the financial statements. In many cases, the reports will not come directly from E5, and instead the reporting tool Jasper will be used to produce the information required. The finance team have been working on these reports, including recreating last year's accounts from this year's opening balances. This work was initially scheduled for the end of January 2018. There has been some slippage on this timetable, and at the end of January we have reviewed the progress on this, including the re-creation of the balance sheet, however the revenue balances were still being worked on. We have agreed various areas of early transaction testing for our March visit, including operating expenditure and fees and charges income. The finance team are confident that they will be able to produce the necessary reports for this transaction testing. They have, however, raised that at present there are some challenges around producing a demonstrably complete transaction listing of journals at year end. Testing of journals is a fundamental test required by the auditing standards and therefore this is a key area that will need to be resolved. **Action** • Finance staff to complete the work on the re-creation of the financial statements, and this will now be included in the audit visit scheduled for March. • Transactions listing to be prepared for all balances as agreed for the March audit visit to enable early testing to be performed. • Finance staff to update audit on progress on the reporting of journals at year end.
2.	Assurance over the new financial system	We have highlighted the implementation of the new financial system as a significant risk and have therefore requested from management a detailed working paper demonstrating the issues encountered during implementation, the magnitude of those issues and how these have been resolved to ensure the accuracy of the financial reporting. We have also discussed the level of internal audit assurance that will be provided in this area. As at the end of January, there has been no detailed internal audit assurance provided on the new financial system, either by the Worcestershire County Council Internal Audit team, or the internal auditors of Liberata. Fieldwork is scheduled for the final quarter of the financial year. **Action** • Working paper to be provided setting out the issues encountered during implementation, the magnitude of those issues and how these have been resolved. • Details and the timeline of the reports expected from internal audit over the new financial system to be provided.

Matters discussed with management during the interim visit continued

	Matter	Commentary
3.	Valuation of the Energy from Waste plant	Following the completion of the Energy from Waste plant last year the Council are seeking to have the asset re-valued. At present the Council are intending to use PPL to value this asset. We have raised with officers that given the specialised nature of the plant, it is key that the person valuing the asset has the necessary skills and experience needed to value it correctly. Management will need to demonstrate their judgements in this area and provide the necessary supporting evidence. **Action** • Finance officers are meeting with PPL in early February to discuss the asset valuation, this point will specifically be considered. • The arrangements for the valuations, including the Energy from Waste plant, will be considered as part of the planned March audit visit.
4.	Working papers	The working papers requested for the January interim visit were generally provided in line with expectations, with clear improvement from last year. There were some key areas however that still require improvement, particularly when providing evidence for transaction testing. We have discussed with officers how these improvements can be made, and agreed some specific actions for the working papers on transaction testing for the March audit visit. Officers are reminded that a good working paper enables a suitably experienced individual to be able to re-perform the work and understand the judgements and conclusions made. In many cases a simple narrative paragraph with embedded evidence would improve the working papers provided. It is also key that where questions are asked these are responded to in full, particularly where multiple questions have been asked. **Action** • The audit team to continue to ensure that all requests for evidence are easy to understand and highlight the purpose of our request. • The finance team to implement the new working papers already discussed for use at the planned March audit visit.

As a result of our work on planning and interim work to date we have agreed some additional contingency time in April with officers to ensure that all issues can be appropriately addressed prior to the closure of the financial statements.

Value for Money arrangements

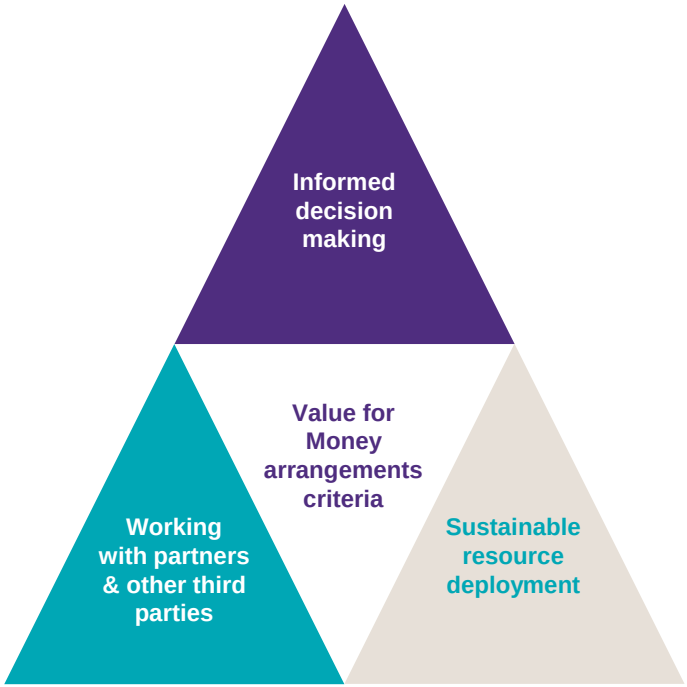
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Children's Services

Children's service was assessed by Ofsted as inadequate at its most recent inspection in January 2017.

We will review the Council's response to the report and the progress made, including the plans for an Alternative Delivery Model.

Financial Sustainability of the Council

The budget position for the Council in the medium term remains challenging with a funding gap of £23m identified in the next 3 years. This is in addition to savings already planned in 2018/19 of £31.6m.

We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key finding to the Council and key decision making committees.

The ability to produce accurate and timely financial reporting

The council implemented a new financial system via an outsourced provider in April 2017. The implementation did not go to plan which impacted on the production and completion of the financial statements for 2016/17

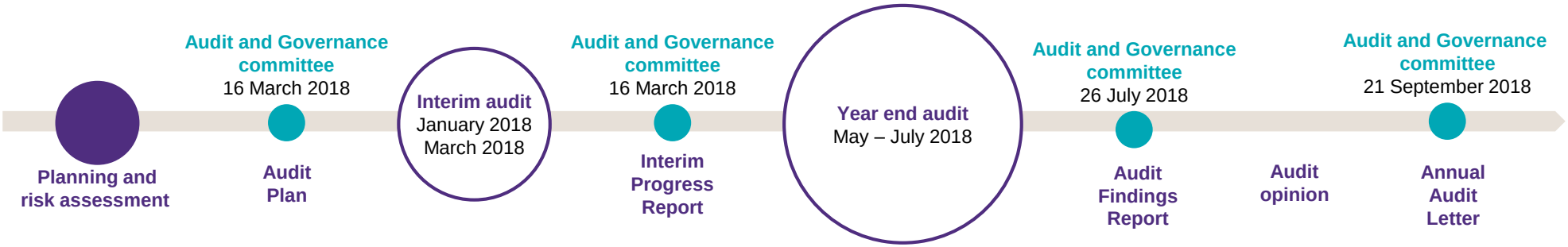
We will review the arrangements for budget reporting in 2017/18 and the impact that the implementation of the financial system had on these arrangements. We will also consider the arrangements in place for the timely production of the 2017/18 financial statements.

Commissioning arrangements

The Council has outsourced a number of its key contracts during the last 12 months

We will review the arrangements for outsourcing these contracts, and how they have been managed and monitored

Audit logistics, team & audit fees



John Gregory

Engagement Lead

John's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Helen Lillington

Manager

Helen's role will be to be a key contact with the Chief Financial Officer and the Audit and Governance Committee.

Kathryn Kenderdine

Executive

Kathryn's role will be to be the day to day contact for Council finance staff. She will take responsibility for ensuring there is effective communication and understanding by finance team of audit requirements.

Audit fees

The scale fee for your audit is £95,446 (PY: £95,446). As members are aware, we had to charge an additional £35,012 in fees in 16/17 due to the difficulties in carrying out the audit. As this year's audit progresses we will discuss with officers whether the additional risks identified as a result of the implementation of the new financial system are likely to result in additional audit work that cannot be contained within the current fee envelope, and will keep members fully informed.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13]). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified from last year, which are likely to be required in 2017/18.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers Pension Return	4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £,4,200 in comparison to the total fee for the audit of £95,446 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
SFA compliance certification	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £95,446 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Nil			

The amounts detailed are fees agreed from the prior year for audit related and non-audit services likely to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendix

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Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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Grant Thornton

External Audit Plan

Year ending 31 March 2018

Worcestershire County Council Pension Fund

16 March 2018

Contents

Your key Grant Thornton team members are:

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Worcestershire County Council Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Worcestershire Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee).

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities.

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

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • The revenue cycle includes fraudulent transactions (this is rebutted, please see page 5) • Valuation of Level 3 investments • Implementation of the new financial system We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £24.8m (PY £24.8m), which equates to 1% of your net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.2m (PY £1.2m).
Audit logistics	Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit of the Fund will be £24,963 (PY: £24,963), assuming prompt and adequate delivery of draft accounts and working papers. Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis (PY: £1,193)
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Deep business understanding

Changes to service delivery

Pooling

Arrangements for the pooling of investments continue to develop. The DCLG have reported on the progress of pools and noted the pace of development. In particular, the launching of procurements for pool operators, the appointment of senior officers and the preparation of applications for Financial Conduct Authority authorisation. This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Markets in Financial Instrument Directive (MiFID II)

January 2018 sees the implementation of MiFID II. The impact for Fund is that to be able to continue to access the same investments as previously, they need to apply to 'opt up' and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the fund, which may have an adverse impact on the achievement of the investment strategy.

On-going Matters

- Indexation and equalisation of GMP in public service pensions schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS
- SAB work on options for academies within the LGPS and review of Tier 3 employer risks

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

Key challenges

Financial pressures

At the date of the last full valuation (March 2016), the fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million. This represented an improvement from the 2013 valuation where the fund was reporting a 69% funded position. Over the medium term the fund has generally outperformed against its benchmarks.

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017-18 would be on scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Worcestershire County Council as the Administering Authority of Worcestershire County Council Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Worcestershire County Council Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: • Gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments 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. We identified the valuation of Level 3 investments as a risk requiring special audit consideration.	We will: • Gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • consider the competence, expertise and objectivity of any management experts used; • review the qualifications of the expert to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We will reconcile those values to the values at 31 March 2017 with reference to known movements in the intervening period.
New Financial System implementation	The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements. We identified the implementation of the new financial system as a risk requiring special audit consideration.	We will: • Review the project plan for the system implementation and review any problems with the implementation and how these have been resolved; • complete tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances; • review the control accounts and bank reconciliations to ensure that appropriate financial control has been maintained throughout the period; and • review the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Contributions from employers and employees' represents a significant percentage (74%) of the Fund's revenue.	We will: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension benefits payable represents a significant percentage (85%) of the Fund's expenditure.	We will: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of individual pensions in payment by reference to member files; and • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	We will • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • consider the competence, expertise and objectivity of any management experts used; • review the qualifications of the expert to value the level 2 investments at year end and gain an understanding of how the valuation of these investment has been reached; and • for a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.

Other matters

Other work

The Fund is administered by Worcestershire County Council] (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Going concern

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

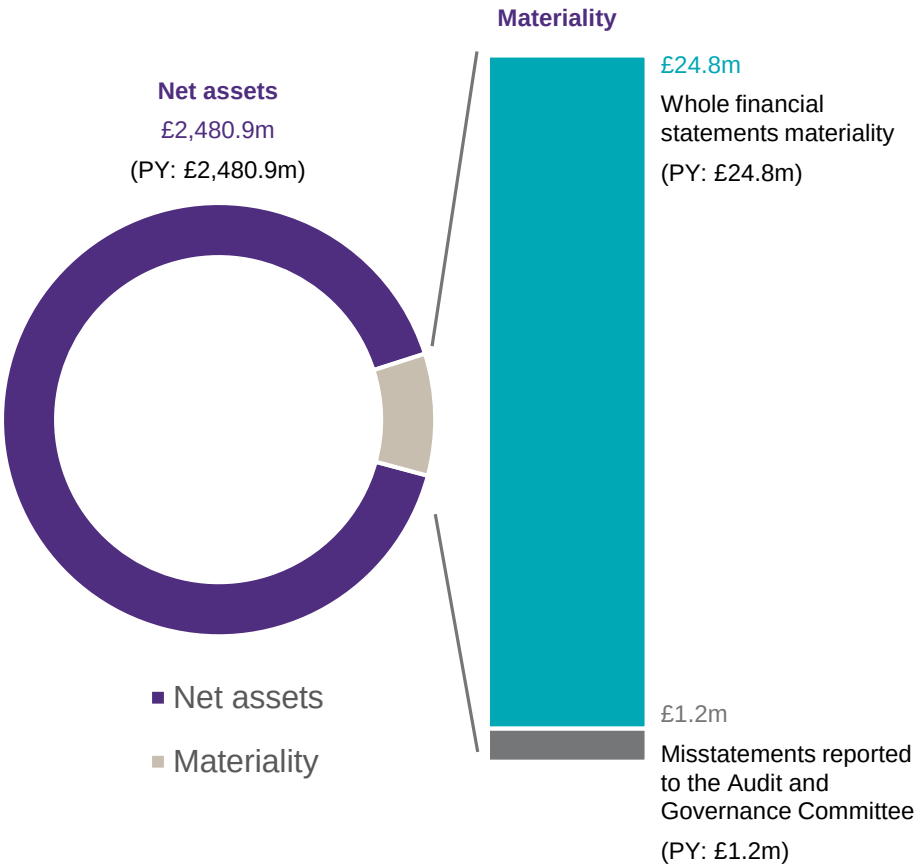
We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £24.8m (PY £24.8m), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.2m (PY £1.2m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & audit fees

John Gregory

Engagement Lead

John's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Helen Lillington

Audit Manager

Helen's role will be to be a key contact with the Chief Financial Officer and the Audit and Governance Committee.

Kathryn Kenderdine

Audit Incharge

Kathryn's role will be to be the day to day contact for Fund finance staff. She will take responsibility for ensuring there is effective communication and understanding by finance team of audit requirements.

Audit fees

The planned audit fees for the Fund are £24,963 (PY: £24,963). In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Non-audit services

No non-audit services were identified

Appendix

Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
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worcestershire countycouncil

AGENDA ITEM 8

AUDIT AND GOVERNANCE COMMITTEE
16 MARCH 2018

EXTERNAL AUDIT PLAN – INFORMING THE AUDIT RISK ASSESSMENT FOR WORCESTERSHIRE COUNTY COUNCIL AND PENSION FUND

Recommendation

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

Background

2. Grant Thornton, the Council's external auditor has produced an external audit report – Informing the Audit Risk Assessment for Worcestershire County Council and Pension Fund which is set out as an Appendix.

3. John Gregory and Helen Lillington from Grant Thornton will be attending the meeting to answer any questions relating to the document.

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
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Email: salexander@worcesterhire.gov.uk

Supporting Information

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

Background Papers

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

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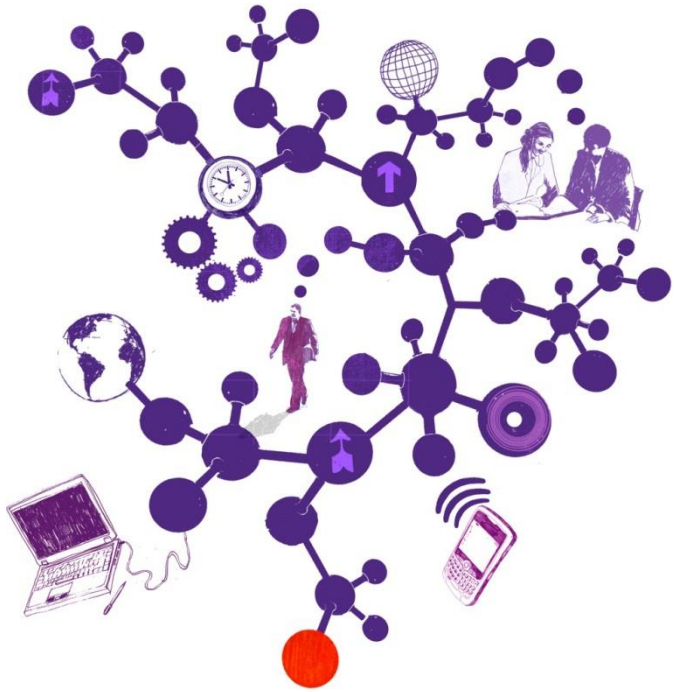
Informing the audit risk assessment for Worcestershire County Council and Pension Fund

Year ended

31 March 2018



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

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Contents

Purpose

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

Background

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

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

Communication

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

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

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

Fraud

Issue
Matters in relation to fraud ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements. The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process. As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including: • assessment that the financial statements could be materially misstated due to fraud, • process for identifying and responding to risks of fraud, including any identified specific risks, • communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and • communication to employees regarding business practices and ethical behaviour. We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud risk assessment

Question	Management response
1. What is officers' assessment of the risk of material misstatement in the financial statements due to fraud? Is this consistent with the feedback from your risk management processes?	The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council clear and effective arrangements are in place to both prevent and detect fraud.
2. Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2017? If so how does the Audit and Governance Committee respond to these?	No material instances of fraud have been identified in 2017/2018. From time to time internal audit are asked to undertake investigations into alleged fraudulent or inappropriate activity. Often there are recommendations made as a result of these investigations, however they rarely result in clear evidence of fraudulent activity. No significant cases have been identified that represent systematic fraudulent activity.
3. Do you suspect fraud may be occurring, either within the Council or within specific departments? Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	We do not expect material fraud is occurring within the Council. However, evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring at Worcestershire. In order to mitigate fraud occurring the Council has a number of processes in place. The Internal Audit plan incorporates consideration of potential fraud risks and how these are to be mitigated, for example through the reviews of the Council's key systems and the work it completes on the Council's Anti-Fraud processes to ensure that they are fit for purpose. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register.

Fraud risk assessment (continued)

Question	Management response
4. Are you satisfied that the overall control environment, including: the process for reviewing the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Yes. The Council's management have been asked to state in their Director Assurance Statements that they are not aware of any significant control failures occurring in 2017/2018. In addition to segregation of duties, the Council has a number of other control processes in place to prevent, deter or detect fraud, including the use of exception reports to identify unusual transactions which could be fraudulent.

Fraud risk assessment (continued)

Question	Management response
5. How do you encourage, and communicate to employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud?	A confidential fraud reporting hotline is available for concerns to be reported and there is an Internal Fraud e-learning module for all staff. The Council has established Whistleblowing and Anti-Fraud and Corruption Policies which are available on the Intranet. In order to keep abreast with current developments, Internal Audit sends a representative to Midland Counties Chief Internal Auditor group and receive regular updates from the Institute of Internal Auditors. Relevant seminars are attended to keep abreast of current developments.
6. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	There are no significantly high-risk posts identified.

Fraud risk assessment (continued)

Question	
7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	The 2016/2017 financial statement disclosure of related party transactions does not identify any potential fraud risk, and none is anticipated in the preparation work for the 2017/2018 financial statements. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.
8. What arrangements are in place to report fraud issues to Audit Committee? How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	Internal Audit report to Audit & Governance Committee on a quarterly basis any fraud issues. The Audit and Governance Committee may seek further assurance from Internal Audit or management regarding fraud and breaches of internal control.
9. Are you aware of any whistleblowing reports under the Bribery Act since 1 April 2017? If so how does the Audit and Governance Committee respond to these?	No

Laws and regulations

Issue
Matters in relation to laws and regulations ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements. Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements. Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The role of the Monitoring Officer is defined in the Constitution as "responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet." The Monitoring Officer is supported by a team of Legal and Democratic Services Officers who advise him of any matters of concern. The Monitoring Officer sees all reports to the Chief Officer Management Board and all reports to Members. All reports to Members are required to have a legal implications section and a risk section. The section 151 officer is responsible for preparing the accounting statement in accordance with relevant legal and regulatory requirements.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The Monitoring Officer (or representative) attends Audit and Governance Committee Meetings when legal issues arise and advises members on any areas of concern.
3. Have there been any instances of non-compliance with law and regulation since 1 April 2017 with and on-going impact on the 2017/2018 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Council has an internal Insurance Team, under the line management of the S151 Officer, to advise and monitor any litigation / claims. This is in addition to services undertaken by the internal Legal and Democratic services team. Any issues are brought to the attention of the Monitoring Officer and/or S151 Officer as they arise.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue
Matters in relation to going concern ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements. The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has a report been received from management forming a view on going concern?	The Interim CFO, as s151 Officer, is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the annual Budget report to Cabinet and Council in February. The provisions in the Code of Practice on Local Authority Accounting on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Medium Term Financial Strategy (MTFS) underpins the strategic, transformational and operational intentions for Worcestershire County Council and forms part of the corporate strategic planning process. The financial assumptions are therefore consistent with the Corporate Plan. Reports in year are consistent with the budget set.
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The financial plan considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement. Financial forecasts and the MTFS is updated for the effects of government statutory and policy changes.
4. Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	A Lessons learned report on the finalisation of accounts 2016/17 was presented to Audit and Governance Committee 8 December 2017. It was acknowledged that the action plan was very demanding and the Council was also faced with added pressure of producing the 2017/18 accounts using the new ledger for the first time within a compressed timescale. Internal audit are to complete assurance work before the end of the financial year.

Going concern considerations (continued)

Question	Management response
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes
7. Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	Yes. The Council has a robust corporate planning process, including an annual corporate strategic planning process and a change management process involving directorate leadership teams and weekly Star Chamber call ins to track particular successes or progress against the more difficult milestones. Directors and Cabinet Members are included in this process.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	There are no such conditions that management is aware of.
9. Are arrangements in place to report the going concern assessment to the Audit and Governance Committee? How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	The Council is an organisation which has many statutory responsibilities and functions and as such the financial statements are prepared on a going concern basis. Where any of the Council's functions are changing, these decisions are taken by Cabinet and where appropriate Full Council, matters of which are routinely considered by Audit and Governance Committee members.

Related Parties

Issue
Matters in relation to Related Parties Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include: ■ entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries); ■ associates; ■ joint ventures; ■ an entity that has an interest in the authority that gives it significant influence over the authority; ■ key management personnel, and close members of the family of key management personnel, and ■ post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority. A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority perspective but material from a related party viewpoint then the Authority must disclose it. ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Question	Management response
What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?	Throughout each year, finance and legal services staff are involved in supporting any detailed partnerships or similar arrangements with other bodies. During the final accounts process, a particular challenge exercise to indentify any and all matters in relation to related parties is undertaken. The results of this exercise is included in the financial statements.

Accounting estimates

Issue
Matters in relation to accounting estimates Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that: • the estimate is reasonable; and • estimates have been calculated consistently with other accounting estimates within the financial statements. We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Question	Management response
Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Assumption methodologies are reviewed before the financial statements are prepared, and are detailed for transparency in the accounts publications.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by a qualified valuer (RICS/CIB Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews.	There is a rolling program of valuations and the finance team issues a terms of engagement covering specific issues for the year	Yes, the valuer is a member of RICS	Valuations are made in-line with RICS guidance - reliance on expert	No
Estimated remaining useful lives of PPE	The following assets categories have general asset lives: • Buildings 10-99 years • Vehicles, Plant and machinery 3-10 years • Infrastructure 20 years	Consistent asset lives applied to each asset category	Use a local RICS member for valuations	The method makes some generalisations. For example, buildings tend to have a useful life of up to 65 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	The length of the life is determined at the point of acquisition or revaluation according to: • assets which are bought from a third party are depreciated for a full year in the year of purchase. All other assets created as a result of capital expenditure during the year are depreciated for a full year where appropriate. • Assets under construction, being capital works in progress where the uncompleted asset does not have a material benefit to the County Council, are not depreciated.	No

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Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

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AGENDA ITEM 9

AUDIT AND GOVERNANCE COMMITTEE
16 MARCH 2018

INTERNAL AUDIT PROGRESS REPORT 1 NOVEMBER TO 31 JANUARY 2018

Recommendations

1. **The Interim 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 November to 31 January 2018 for consideration by the Committee.

Contact Points

County Council Contact Points
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Worcestershire Hub: 01905 765765

Specific Contact Points for this report
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Supporting Information

- Appendix - Internal Audit Progress Report 1 November to 31 January 2018.

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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APPENDIX

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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	School Themed Audit - Safeguarding	Substantial
2	Economic Growth	Full
3	Corporate Project Management	Moderate
4	IT Disaster Recovery	Moderate
5	Place Partnership Contract Management	Moderate

2016/17 Plan

In addition, the following 2016/17 audit previously reported as draft to the Committee in the Internal Audit Annual Report dated 21 July 2017 has now been issued as a final report:

- Information Management (Moderate assurance)

2017/18 Plan

In addition to the audits listed above a review of the lessons learnt report produced in respect of the Evesham Abbey Bridge project has been undertaken. Our review concluded that the lessons learnt report is accurate and supported by the events, facts and documentation reviewed and verified during the course of the review. The summary paragraph sets out two key issues:

- the Contractor's seriously under-priced bid and,
- a skills deficit or fade in Worcestershire County Council probably attributable to there having been very little major project work in recent years.

Whilst this is correct the Audit view is that the seriously underpriced bid exposed the second issue and as such this project shows the risks in accepting underpriced tenders i.e. those which offer the contractor no financial margin, especially where the contractor is also taking on significant cost risks.

In addition to completed audits draft reports have been issued on the following assignments:

- Direct payments – Adults
- Mobile devices
- Lindridge Primary School
- Section 117

There have been no limited opinion audits completed since the last report to Committee.

The remaining work in the 2017/8 plan has been assessed and reprioritised to ensure that sufficient work on the new financial systems can be undertaken. Additional work is required on the Financial Systems with unplanned audits of Bank Reconciliation, Feeder Controls and Access Controls proposed. To enable this work to be undertaken, planned audits of VAT, (which is currently subject to an external assessment by HMRC) and Liberata Contract Management, (which is subject to continual review internally) and Ofsted Improvement Plan (subject to intense external and internal focus) are proposed to be deleted from the current years plan. The advice work planned on Parkway has been deemed not required by the Strategic Commissioner – Major Projects and the Director of Economy and Infrastructure. These changes have 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 the majority of the plan will be completed in time for inclusion the 2017/8 annual report, subject to managers meeting deadlines for reviewing terms of reference and draft reports, providing information, and availability of key staff.

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, internal audit have been made aware of a number of special investigations that are in progress or have concluded during the year and have provided advice to management as required. A summary of the significant issues arising from these investigations are reported below:

- Direct Payments - Adult Services. An individual had been in receipt of direct payments for a number of years but they had not provided any recent bank statements. Moreover, the service user had acknowledged that she had not been entitled to the payments more recently. This matter has been reported to Action Fraud and the service user issued with a debtor account for £38,867.58 to recover funds paid that she was not entitled to.
- Misuse of Prepaid Card. A prepaid card issued to a service user continued to be used whilst he was in prison. This also led to the account becoming overdrawn by £96.30. The police have been informed but it is unlikely any further action would be taken.

Work is continuing on two cases reported to previous meetings. These relate to a Company fraudulently claiming grant funding from the Council and an allegation of fraudulent ill health retirement.

The key issues arising from these matters will be reported in due course.

Certification

The period saw one grant claim requiring certification i.e. Stronger Families.
This was satisfactorily audited by the required deadline.

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. The main item relates to changes in the process for the engagement of external consultants/professional services. Internal Audit conducted a review of the new processes to provide advice on their completeness and effectiveness. It found that the new process is clear and effective and appropriate guidance is available on the staff intranet for the engagement of external professional services. The updates build on the previous C1A process and provide a strong and effective control framework. There are also robust monitoring arrangements within the Commercial Team to ensure compliance.

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.

- Information Management
- School Themed Audit - Safeguarding
- Economic Growth
- Corporate Project Management
- IT Disaster Recovery
- Place Partnership Contract Management

This list includes the 2016/17 report 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

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AGENDA ITEM 10

AUDIT AND GOVERNANCE COMMITTEE
16 MARCH 2018

WORK PROGRAMME

Recommendation

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

Work Programme

26 July 2018
Annual Statutory Financial Statements for the year ending 31 March 2018
Auditor Report – Financial Standards
Annual Governance Statement
Internal Audit and Delegated Service Annual Report 2017/18
Internal Audit Risk Assessment and Plan 2018/19
Corporate Risk Report
Bromsgrove Railway Station Project
Member Training Plan

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

March 2019

Internal Audit Progress Report 2018/19
External Audit Plan 2018/19
Internal Audit Plan 2019/20
External Auditor's Report

Contact Points

County Council Contact Points
County Council: 01905 763763
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