

Worcestershire County Council

Agenda

Audit and Governance Committee

Thursday, 26 July 2018, 2.00 pm
County Hall, Worcester

This document can be made available in other formats (large print, audio tape, computer disk and Braille) on request from Democratic Services on telephone number 01905 728713 or by emailing democraticServices@worcestershire.gov.uk

Find out more online:
www.worcestershire.gov.uk

DISCLOSING INTERESTS

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

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

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

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

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

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

Audit and Governance Committee

Thursday, 26 July 2018, 2.00 pm, County Hall, Worcester

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

Agenda

Item No	Subject	Page No
1	Apologies and Named Substitutes	
2	Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Head of Legal and Democratic Services 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, 25 July 2018). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 16 March 2018. (previously circulated – pink pages)	
5	Internal Audit Annual Report 2017-18	1 - 24
6	External Audit - Audit Findings Report	25 - 78
7	Annual Governance Statement 2017-18	79 - 96
8	Annual Statutory Financial Statements for the year ended 31 March 2018	97 - 98
9	HR/Finance System Implementation update	99 - 112
10	Internal Audit - External Quality Assessment	113 - 140
11	Internal Audit Plan 2018/19	141 - 166
12	Member Development	167 - 172
13	Work Programme	173 - 174

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

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

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

Date of Issue: Wednesday, 18 July 2018

Item No	Subject	Page No
14	Commissioning	175 - 182

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

INTERNAL AUDIT ANNUAL REPORT 2017/18

Recommendations

- 1. The Chief Financial Officer recommends that the Internal Audit Annual Report 2017/18 set out in the Appendix is endorsed.**

Background

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

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 846268

Email: mhudson@worcestershire.gov.uk

Supporting Information

- Appendix - Internal Audit Annual Report 2017/18

Background Papers

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

This page is intentionally left blank



Internal Audit Annual Report 2017/18

“Providing assurance on the management of risks”



Internal Audit Annual Report 2017/18

“Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2017/18 and as required by the Accounts and Audit Regulations 2015 gives an overall opinion of the Authority’s control environment that operated during 2017/18.

Summary Opinion

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

Context

This report outlines the work undertaken by the Internal Audit service for 2017/18.

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

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

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

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

Internal audit work during 2017/18

The underlying principle to the 2017/18 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.

The methodology adopted in preparing the 2017/18 audit plan, and the plan itself, were approved by the Audit and Governance Committee on 21 July 2017.

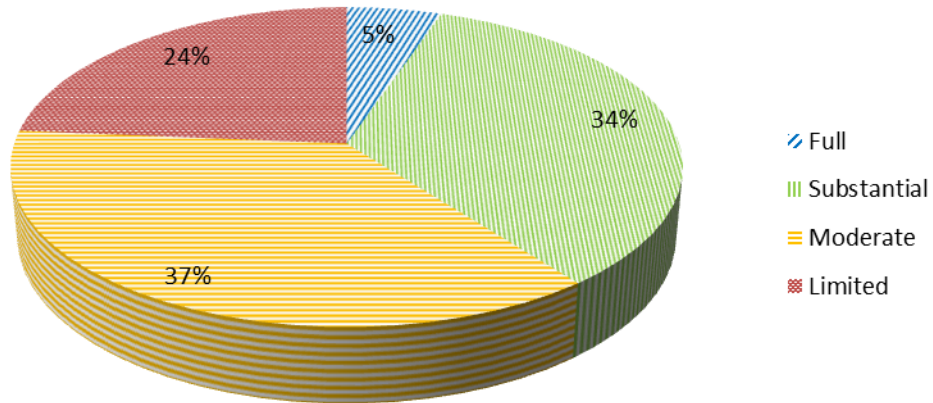
Since the original plan was approved a number of variations to the plan have proved necessary, additional work has been undertaken and some planned audits were no longer required. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. The net effect is that although the work undertaken during the year was different to that anticipated 12 months ago, I am pleased to report that, although delivery has been impacted by vacancies and maternity leave, in terms of the number of jobs completed, 95% of the plan was achieved subject to management responses being finalised and agreed for outstanding draft reports.

Summary of assurance work

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

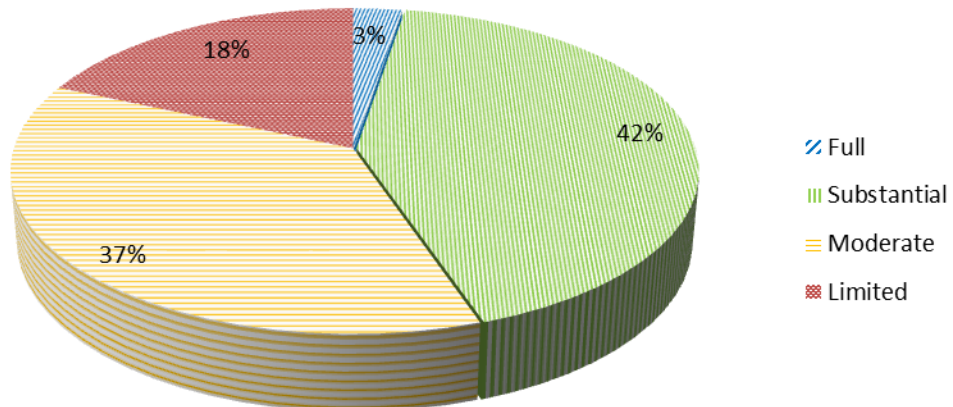
As shown in the following chart the results of a majority of this year's audits are positive.

Opinions Given During 2017/18 incl drafts



This compares to the outcome for 2016/17:

Opinions given during 2016/17 incl drafts



However, in total three finalised audits from the 2017/18 plan have resulted in a limited opinion:

- Direct Payments – Adult Services
- Accounts Payable
- Section 75 agreement

In addition there are six audits in draft which will result in a limited opinion:

- Accounts Receivable
- Access Control
- Bank Reconciliation
- Business Ownership of Systems
- Adults Case files
- Payroll

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

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

The following audits are still in progress and are prioritised for completion in 2018/19:

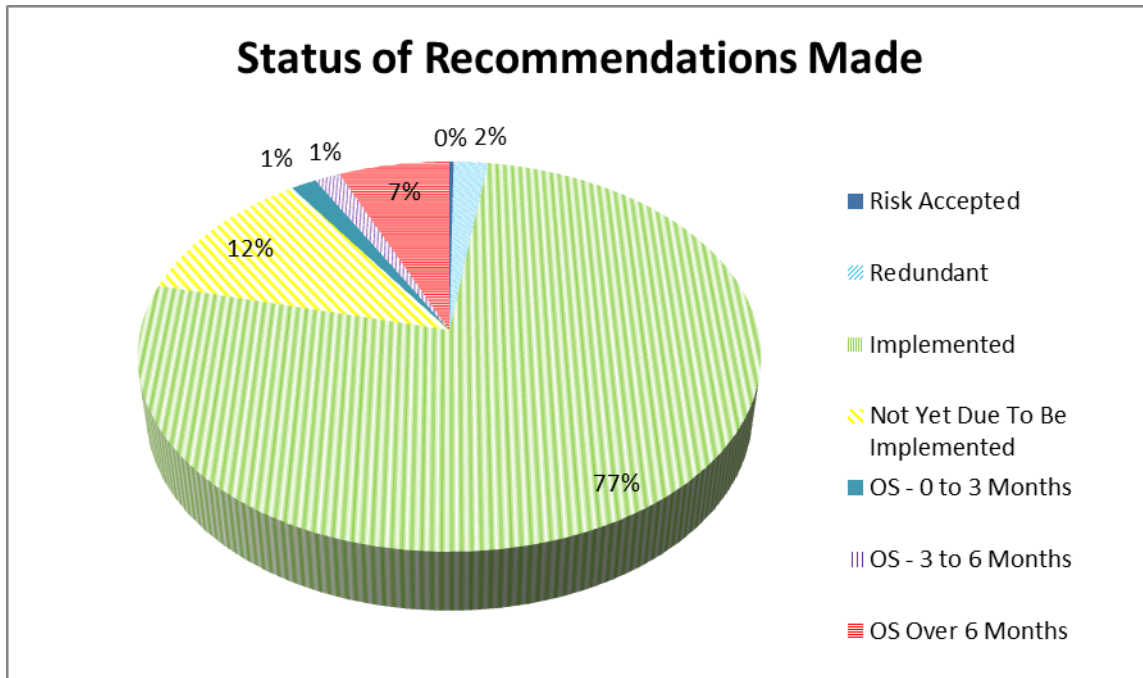
- Learning Disability Services
- Domiciliary Care billing and charging
- Learning & Achievement Contract
- Regional Adoption Agency
- Performance Management
- Starters & leavers
- Transformation & Savings Plans
- Transport
- Design Services
- Budget Management

At this stage I anticipate that one of these, Learning Disability Services, will result in a limited opinion.

Recommendations

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

In total since 1st May 2015, when the shared service started, 397 recommendations have been made to address weaknesses in control which would otherwise not have been identified. Of these 38 are overdue for implementation i.e. the target date agreed by the relevant manager at the conclusion of the audit has passed. 26 of these are overdue by more than 6 months (5 of these are classed as fundamental).



Appendix C summarises those audits which have overdue recommendations.

Arrangements for monitoring implementation of recommendations is being strengthened with the Chief Financial Officer receiving a report monthly of all outstanding recommendation which will be actively monitored.

Summary of non-assurance work

Special Investigations

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a number of special investigations were needed during the year. A summary of the significant issues arising from completed investigations, all of which have previously been reported to the Committee, are summarised below:

- Ill Health Retirement - An investigation was conducted into an allegation that a former employee had fraudulently obtained early release of their pension on ill health grounds. Agreed processes had been followed and management have agreed further improvements to strengthen procedures.
- European Regional Development (ERDF) grant - A grant was fraudulently obtained. Internal audit investigated this matter and provided evidence to the Police and Crown Prosecution Service. The grant applicant was charged and pleaded guilty to fraud at Worcester Crown Court on 18th April 2018. He was fined £1,000, ordered to pay £5,000 to the Council and £535 costs.
- Conflict of Interests - An investigation was conducted into an internal conflict of interests situation. Internal Audit attended a disciplinary hearing in the role of investigating officer to report the findings from the investigation.
- 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 action is being taken to recover £38,867.58 that she wasn't entitled to.

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the year therefore the service continued to provide consultancy input into a number of topics including:

- Use of Consultants – Internal Audit has provided advice on the controls regarding the monitoring and approval of consultants' expenditure.
- The Hive - Advice was provided on The Hive's governance arrangements.
- Bank Sort Code Changes - Advisory work was undertaken on the impact of bank sort code changes.
- Cheque Payments - Advice was provided regarding an issue with cheque payments, including what controls should be in place moving forwards.
- Direct Payments - Advice was provided on the processes surrounding direct payments and on how controls could be strengthened to address issues previously raised by Internal Audit.
- Financial Assessments - A request was received from the former Director of Adult Services for advice on the way that financial assessments are conducted. A final report was agreed recommending a number of points for consideration.
- Apprenticeship Levy – A review was carried out of the arrangements for the award and administration of the apprenticeship levy. A report was issued recommending a number of recommendations for consideration. recommendations were made to improve the process and to seek clarification
- Financial Systems Advice – Advice was provided during the year on the requirements of the Final Account process.
- GDPR – Attendance at GDPR Implementation Project Board and GDPR Board meetings.
- Library & Information Service Cash Handling – Advice has been given on the processes for cash handling.
- Advice Work, Schools - Various requests for advice from schools and School Finance.
- Quality check on draft 2017/18 accounts for reporting consistency and format.

Certification

Audit has traditionally carried out a small amount of work in relation to the certification of accounts for miscellaneous County Council related funds and is required to certify a small number of grants. In total 9 accounts were cleared satisfactorily during the year.

Effectiveness

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

When the standards were first introduced a number of actions were identified to improve compliance and periodic self-assessments completed to identify any further areas for improvement. The latest self-assessment was completed in 2017 and was validated by an external expert prior to reporting to the Audit & Governance Committee. This was a precursor to a full externally conducted quality assessment of the service conducted during 2017/8. The report of that assessment states that the audit service “complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector.”



The report makes a number of recommendations to further improve the service provided and a detailed report on the outcome of the assessment will be presented to the Audit & Governance Committee with an action plan in due course.

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

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

The post audit questionnaire responses returned continue to be good with the average score from all surveys relating to Worcestershire returned during 2017/18 being 4.55 out of a maximum of five, and a number of positive comments and compliments about the service provided have been received, including:

- It was collaborative and included issues that were relevant to service improvement.
- The auditor knows this area well and managed to complete this work quickly and with minimum disruption to operational activities during the busiest period of our work.
- The meetings conducted with the auditor were professional and productive and the quality of the report was good.
- Very concise and targeted. Our evidence was checked and the audit gave ourselves the valuable time to reflect on our own processes with external validation. A very comprehensive audit.
- Professional discussion – chance to explain and justify and be challenged to evidence practice.
- We liked the way we were very much involved in the audit and the dialogue and opportunity it provided to discuss safeguarding.

- Thank you for making the process very constructive and positive. The review was conducted in a very professional, positive manner.
- The auditor was keen to engage in a dialogue and listen to evidence, review documentation collectively. It felt collaborative, rather than being 'done unto'. Thank you for the manner in which you conducted the morning.
- I thought that the questions were asked in a manner that was thorough and courteous.
- A very valuable activity which should be done more frequently. The review gave a really precise set of targets for improvement. This is an essential activity, to ensure that schools are meeting all expectations and requirements. I would value such audits on a far more regular basis. An excellent service, providing invaluable help and support. The audit was very comprehensive. Just more of them please.
- Consultation was thorough and visit was extensive and useful.
- Friendly and professional review
- Face to face – flexible, realistic and took account of context.
- The review was conducted by the lead auditor in an open manner that made it clear what he was trying to achieve from the outset of the audit.
- The auditor understood fully our questions and what we needed to put in place.
- Useful to talk through our process and that governance and mechanism currently do not have any issues.
- Very professional approach and approachable officers
- The investigation and subsequent report is clear and covers all of the issues raised so thank you.
- Thank you for the prompt response and the support with the audit.
- Thank you for making the process very constructive and positive.
- Thank you for your time last week and for the quick return on the report.

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

- Flexibility and approachability of audit. Good communications. Thoroughness of review.
- Efficient.
- I like the collaborative style – it felt like I was part of the process and wasn't being 'done to'.
- The audit checks were very timely and the communications were very good.
- Professional approach of the auditor and taking the effort to ascertain and accommodate the normal working cycle.
- With regard to the scope of the audit and the work undertaken has provided assurance on the fundamental controls. Friendly approach by auditor and not intrusive on the department.
- The auditor was very professional.
- Clear, concise to the point.

It is clearly important for any audit service to keep abreast of best professional practice. The audit service is fortunate in having strong links with colleagues both within the Midlands and nationally. The Service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional

support. At a regional level there are networking opportunities for auditors specialising in adult social care, fraud and police. As well as good opportunities for continuing professional development and sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

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

Opinion

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

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

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

- all audits completed during the year;
- audits which are in draft and where a management response is awaited;
- any follow-up action taken in respect of audits from previous periods;
- any fundamental recommendations not accepted by management and the consequent risks;
- anticipated outcome from audits currently in draft;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in the Authority's systems; and
- matters arising from previous reports to members.

The Council continues to face a number of significant challenges including responding to the to the statutory improvement notice in Children's Services, the recent SEND inspection, securing compliance with GDPR and the issues arising from the implementation of new financial and HR systems. These issues, which impact on the Council's control environment, continue to be actively managed and audit work highlights that although the picture on financial systems has improved during the year much work remains to be done to stabilise them.

Internal Audit place assurance on Liberata's internal audit service (Audit West) for the review of the design and operation of key controls on the HR, Payroll and Finance transactional processes provided by Liberata. At the time of writing the Council has not received the results of the audits undertaken by Audit West nor has an overall opinion been received in respect of the services provided to the Council by Place Partnership by their auditors.

Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. However, some significant issues have arisen during the year from internal audit work on financial systems which have broader impact. On this basis my opinion is that the Authority's control environment provides moderate assurance that the significant risks facing the Authority are addressed.

G Rollason
Head of Internal Audit
10 July 2018

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

Audit		Level of Assurance
	Adult Services	
1	Mental Health s117	Moderate
2	Panel Process - Devolved decision making	Moderate
3	Hospital Discharges - Patient Flow Centre	Substantial
4	Brokerage #	Substantial
5	Social Work Practice	Substantial
6	Continuing Health Care	Moderate
7	Section 75	Limited
8	Direct Payments Adults	Limited
9	Case File Reviews #	Limited
	Economy & Infrastructure	
10	Economic Growth	Full
11	Highways Maintenance Contract	Full
12	Highways Planning and Development #	Substantial
	Children Families & Communities	
13	School Visits - Lindridge	Moderate
14	School themed - Safeguarding	Substantial
15	Direct Payments Children	Moderate
	Commercial & Commissioning	
16	Place Partnership Contract	Moderate
17	ICT Software Licensing (16-17)	Moderate
18	ICT Projects and Programmes	Substantial
19	ICT Disaster Recovery Arrangements	Moderate
20	IT Cyber Security	Moderate
21	Business Ownership of systems assets #	Limited
22	IT Mobile Device Management	Substantial
23	IT Infrastructure	Moderate
24	IT Access Controls	Substantial
25	Health and Safety #	Substantial
	Corporate	
26	Agency Staffing	Substantial
27	Emergency Planning	Substantial
28	Corporate Project Management	Moderate
29	Procurement #	Moderate
30	Contract Management	Moderate
	Finance	
31	Bank Reconciliation #	Limited
32	BACS	Substantial
33	General Ledger Interface Controls #	Substantial

Audit		Level of Assurance
34	Access Controls #	Limited
35	Accounts Receivable #	Limited
36	Accounts Payable	Limited
37	Pensions Investments	Moderate
38	Payroll #	Limited

Denotes those audits where the draft report has been issued

1 Note that some of these audits started in 2016/17

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

- School Visit - Lindridge
- Section 117 Mental health
- IT Mobile Device Security Management
- IT Infrastructure
- IT Access Controls
- Direct Payments - Adults
- Accounts Payable
- Direct Payments (Children)
- BACS
- Social Work Practice
- Continuing Health Care
- IT Cyber Risk & Security
- Section 75
- Pensions Investments
- Contract Management
- Highways Maintenance Contract
- Agency Staffing

Published reports can be accessed by the following link:

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

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

1. Completed Audits

Accounts Payable

Liberata UK Limited is contracted to deliver Transactional HR, Payroll & Finance services on behalf of the Council including providing an accounts payable (creditor payments) service. However, some of the controls associated with the creditor payments system continue to operate within the Council, such as the approval of purchase orders and goods receipting. This review concentrated on those controls which continue to operate within the Council, including initiating and approving purchase orders and verifying satisfactory receipt of goods and/or services. The audit of processes within Liberata is the responsibility of their internal auditors.

The review identified the following key concerns:

- Assurance has not been sought or received from Liberata that the controls for entering and amending supplier bank account details, which is a key fraud risk area, are operating effectively.
- Sample checks identified cases where the goods receipting on the financial system (E5) had been undertaken by Liberata staff without any audit trail confirming that receipt had been confirmed by Council staff. E5 has an auto goods receipt process in place for all orders under £50 which aren't already goods receipted when the invoice is loaded but the council has not agreed to this process.
- 32% of all supplier invoices paid between 1st April 2017 and 31st January 2018 were processed against retrospectively raised purchase orders.
- There is a lack of clarity over the role of key finance users in the process of creating new E5 users. There is also a lack of an audit trail to show where requests for new users originated from.
- Controls are not in place to ensure that E5 limits of delegated financial authority correspond with limits in individual directorate schemes of delegation some of which also need reviewing.
- Not all invoices have been scanned into E5 as per the requirements of the Contract Service Specification.

Direct Payments – Adults

A direct payment is a payment of money from the County Council to either a person needing social care and support, or to someone else acting on their behalf, to pay for the cost of arranging all or part of their own support. The local authority must provide a direct payment to someone who meets the conditions in the Act and regulations. The objective of this audit was to provide an opinion on the control framework in place for the direct payment screen. Issues identified include:

- Only two of the seven recommendations made in our previous report, issued in May 2016, have been implemented, even though all recommendations were agreed and accepted.
- As in the previous review, testing established that a copy of the signed direct payments agreement (DPA) was not always retained and only 55% of DPA in our sample checks were in the 'Documents' folder within the system.
- As in the previous review, testing identified that in 30% of cases, the annual Direct Payments (DP) review had not been undertaken and in addition, there was no evidence of the annual financial assessment.
- Where the DP review was completed, we found that the relevant section on Frameworki had been completed and there was evidence of the bank balance and statement date, but there was no evidence that individual expenditure items or spending patterns were reviewed.
- Social Workers are expected to review bank statements, but these are not always available and hence there is no review.

Section 75 Agreement

The Council has a history of joint commissioning across Adults and Children's Services. The NHS Act 2006, Section 75 and associated Regulations empowered the NHS and Local Authorities to enter into formal agreements which delegate powers and responsibilities for the commissioning and delivery of services to each other within the parameters of the legislation. The overall purpose of Section 75 agreement is to jointly improve outcomes for patients and service users.

The key concerns identified include:

- The S75 Agreement did not provide sufficient detail for some aspects of the service, for instance, performance management arrangements and performance measures were not detailed for each scheme covered; the process to be followed for the review and approval of variations was not documented; and arrangements for health and safety monitoring, including the reporting of serious incidents and 'never' events were not included.
- Contrary to the requirement of the S75 Agreement an annual review of the operation of the Agreement had not taken place, at least in the last two financial years, and a joint annual report had also not been issued in this period.
- The rationale behind the apportionment of management staff costs between the Council and the Health and Care Trust could not be ascertained.
- Expected quality of service was not defined for all the schemes covered

by the S75 Agreement.

- Although stipulated in its terms of reference, review of the minutes of the Integrated Commissioning Executive Officers Group (ICEOG) meetings held between December 2017 and March 2018 showed that performance measures were not reported at any of the meetings.

2 Audits where management comments are awaited on draft report

Accounts receivable

The accounts receivable functions carried out by Liberata are subject to review by their Internal Auditors therefore the focus of the audit was the areas that continue to be controlled by the Council including the raising of sales orders and credit notes, the authorisation of write offs and the completion of litigation questionnaires.

Issues identified during the audit include:

- A potential data breach in that Worcestershire County Council users of E5 were able to view sales invoices raised by Academy Schools. Liberata have since been notified and requested to confirm whether there was a wider issue with school staff being able to access invoices raised by the authority.
- There is no process in place to ensure invoices for rents due to the authority are raised promptly and correctly by Place Partnership Limited.
- Although the original specification contained a number of service level requirements there is no process in place to monitor compliance with these.
- The completion and return of Litigation Questionnaires (by Worcestershire County Council staff) within 14 days was included as a Service Level Requirement. There is no mechanism to monitor compliance with this requirement. However based on information provided by Liberata on the number of questionnaires issued it would appear that the return rate is very low meaning no further action can be taken to recover the amount owing.
- The specification included a service level requirement to have reports to highlight debts to be chased by clients (including blocked debt) within 14 working days of month end. There is no evidence that any report is produced and there is no process in place to monitor progress on accounts which have been passed back to the Authority for further action.
- Liberata are responsible for verifying that accounts passed for write off have been signed by an approved signatory. However there is no formal process in place to ensure they are kept informed of all staffing or structure changes that may affect the scheme of delegation.

Access control

The objective of this audit was to provide an opinion on the adequacy of the overall arrangements in place for access by Worcestershire County Council staff to the E5 financial system.

The review identified the following key concerns:

- E5 is a cloud based system and leavers must be disabled on the system as well as any network access being revoked. There was no evidence of any users being deleted from the E5 system so there is a concern that former Council staff still have access to the system.
- The Council does not receive an acknowledgement / confirmation from Liberata following a request for a change in user access rights.
- There was a lack of clarity about processes and the role of Key Finance Users who have the responsibility for user changes.

Bank Reconciliation

This review concentrated on the bank reconciliation processes within the Council's finance team which takes places using the E5 finance system which was implemented from 1st April 2017.

The review identified the following key concerns:

- The absence of documented procedures and processes for completion of the bank reconciliation including timescales for completion of reconciliations.
- Contingency arrangements for the absence of staff who normally complete the bank reconciliations.
- No bank reconciliations were completed until July 2017 due to the implementation of the E5 system.
- No assurance for bank reconciliation purposes on the completeness of records of manual cheques that were used by Liberata when the system could not print cheques from E5 in the first few weeks of April 2017.
- A significant number and value of transactions that had not been resolved / corrected by Liberata.

Business Ownership of systems

This review was a follow up audit to ensure issues raised in the 2016/17 audit have been addressed. As services are outsourced it is important that there are

appropriate controls around ownership of assets and business data.

Issues raised in the previous audit have not been addressed and consequently data security checks are not being carried out in respect of outsourced services. The management response to the previous audit report said that the Council would implement a requirement that all service providers would be assessed against Cyber Essential. Neither Project nor Commissioning managers check that service providers are cyber essential certified. It is important that the Commissioning team inform Worcestershire ICT Infrastructure & Security Architect as part of the commissioning process, of all contracts where data transfer or data access is either being transferred or collected on behalf of Worcestershire. So that appropriate IT security checks can be undertaken.

Case File Reviews

The objective of this audit was to provide an opinion on the arrangements in place within Adult Social Care to ensure the quality of the case notes held on the Frameworki system.

The review identified the following key concerns:

- The full case notes are not being reviewed as part of the case file audit process. Only sample episodes are being audited.
- The performance indicator relating to the number of case file audits completed is currently below target.
- Information held on a service user's case file is not always up to date to reflect their current situation.

Appendix C: Status of Outstanding Recommendations

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Adult Services									
Hospital Discharges - Patient Flow Centre	3	0	0	1	0	2	0	0	Y
Panel Process - Devolved decision making	6	0	0	4	0	1	1	0	Y
Adults Case Files	6	0	0	3	0	0	0	3 (1 Fundamental)	Y
Adults Commissioning and placement process	1	0	0	0	0	0	0	1	Y
Mental Health S117	4	0	0	3	0	1	0	0	Y
Commercial & Change									
Place Partnership	8	0	0	6	1	1	0	0	Y

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Business Ownership of Systems & Assets	2	0	0	1	0	0	0	1 (1 Fundamental)	N / A (follow up audit undertaken)
ICT Infrastructure	16	0	0	10	0	0	0	6	Y
Economy & Infrastructure									
Bromsgrove Railway Station	4	0	0	1	0	0	0	3 (2 Fundamental)	Y
Flood Management	3	0	0	1	0	0	0	2	Y
Information Management	6	0	0	3	1	1	1	0	Y
Malvern Link & Foregate Street	3	1	0	0	0	0	0	2 (1 Fundamental)	Y
Section 106 Agreements	6	0	0	5	0	0	0	1	Y
Transport Infrastructure Funding	6	0	0	5	0	0	0	1	N
Childrens Services									

Audit	Number of Recommendations								Response Rec'd Y/N
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding (Months)			
						0 to 3	3 to 6	Over 6	
Direct Payments – Children (2016)	9	0	0	8	0	0	0	1	Y
Connecting Families	5	0	2	1	0	0	0	2	Y
Foster Payments	6	0	0	5	0	0	0	1	Y
SEN(D) Transport	5	0	0	4	0	0	0	1	N
Finance									
Capital Expenditure	8	0	0	4	0	0	4	0	Y
Pensions									
Pensions admin, investment and governance	7	0	0	6	0	0	0	1	Y
	116	1	4	71	2	6	6	26	

AUDIT AND GOVERNANCE COMMITTEE
26 JULY 2018**STATUTORY ACCOUNTS AND PENSION FUND 2017/18 –**
EXTERNAL AUDIT FINDINGS REPORT

Recommendation

- 1. The Chief Financial Officer recommends that members consider their response to the Grant Thornton Audit Findings Report for the Worcestershire County Council Statutory Accounts 2017/18 and Worcestershire County Council Pension Fund Accounts 2017/18.**

Background

2. This report has been prepared by the Council's external auditor, Grant Thornton, and summarises the conclusions and key issues arising from the recent audit of the Council's financial statements and their assessment of the Council's arrangements to secure value for money in its use of resources. It also summarises the conclusions and key issues arising from the recent audit of the Pension Fund's financial statements.

Key issues arising - Worcestershire County Council Statutory Accounts 2017/18

3. The key issues are given in the draft of the Grant Thornton report and are summarised below:
 - Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved.
 - Grant Thornton have concluded that, except for the matters identified in respect of Children's Services and Commissioning, the Council had proper arrangements in all significant respects.
 - Grant Thornton identified three misstatement audit adjustments to the draft financial statements, two of which relate to year-end adjustments and the third is a re-categorisation from long term creditors to provisions. They also identified misclassification and disclosure changes required in a number of areas. They have all been adjusted by the Council.

Key issues arising - Worcestershire County Council Pension Fund Accounts 2017/18

4. The key issues are given in the draft of the Grant Thornton report and are summarised below:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved.
- Grant Thornton identified a number of misclassification and disclosure changes. They have all been adjusted.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix 1: Grant Thornton Audit Findings Worcestershire County Council
- Appendix 2: Grant Thornton Audit Findings Worcestershire County Council 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.

Audit Findings

Year ending 31 March 2018

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



Contents



Your key Grant Thornton team members are:

John Gregory

Engagement lead

T: +44 121 232 5333

E: john.gregory@uk.gt.com

Helen Lillington

Manager

T: +44 121 232 5312

E: helen.m.Lillington@uk.gt.com

Kathryn Kenderdine

Executive

T: +44 121 232 5316

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

Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	15
4. Independence and ethics	21

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key issues arising from the statutory audit of Worcestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work was carried out on site from May to July. Our findings are summarised on pages 4 to 14. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix E. Due to the delays in receiving reports from the financial system and the standard of the working papers produced to support the transaction testing there remain a significant number of areas where the testing has not yet been completed.</p>
	<p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>These include:</p> <ul style="list-style-type: none"> Journal transactions; Operating expenses, PPE depreciation and revaluation, Debtors, Financial instruments, and Grants and contributions. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Worcestershire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to Children's Services and Commissioning.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 20.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the audit yet as we are yet to complete the work required for Whole of Government Accounts and the certification of the pension fund annual report. Further details are noted on page 14.</p>

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and risk based, and in particular included:

An evaluation of the Council's internal controls environment including its IT systems and controls; and

Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- Journal transactions,
- Operating expenses,
- PPE depreciation and revaluation,
- Debtors,
- Reconciliation of NI and superannuation costs, plus the review of the pension transactions from the work undertaken by the actuary
- Financial instruments, including debt, cash and investments,
- Grants and contributions.
- Review of the final set of financial statements, including amendments and adjusting entries to the financial system, and
- Receipt of management representation letter.

Our approach to 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.

Our materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Worcestershire County Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	15.232m	We have used a percentage of total expenditure in year as an appropriate benchmark given the Council's activities are driven by public demand for services and the level of expenditure is based on the level of activity.
Performance materiality	8.378m	We have considered the volume of errors identified in the 2016/17 accounts, the change in s151 officer during the year, and the introduction of the new finance system in year. As a result a lower level of performance materiality has been set when compared to prior years.
Trivial matters	0.761m	We have continued to set this as a percentage of materiality, and consider this level as appropriate in determining the errors to be reported to the Audit and Governance Committee.
Materiality for specific transactions, balances or disclosures. For Worcestershire County Council the only balance is in relation to senior officer remuneration	0.1m	This note is an element of the accounts which is of genuine concern to the user of the accounts, with the salaries of senior officers sometimes the subject of adverse publicity.

Going concern

Our responsibility

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).

Going concern commentary

Management's assessment process

The Chief Financial Officer as s151 officer has a reasonable expectation that the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- no material uncertainties related to events or conditions that cast significant doubt upon the Council's ability to continue as a going concern exist that require disclosure.

Page 32.

Auditor commentary

Chapter 6 Section 3.4 of the CIPFA Code on the “*Presentation of Financial Statements for Pension Funds*” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2017/18 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future”.

Management have carried out a formal written assessment in respect of the going concern of the Council and have identified:

- The Council produce financial plans and budgets for members to approve, which continue into the medium term,
- The plans include an assessment of the level of balances and reserves held by the Council, with the Chief Financial Officer considers to be sufficient,
- The Council do monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval to the financial statements. This shows the Council have appropriate cash balances.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

We have reviewed the:

- Written assessment provided by management, including the supporting documentation provided, and
- The cash flow forecast which covers 12 months from the date of approval of the financial statements.

Auditor commentary

Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.

Concluding comments

Auditor commentary

We propose to issue an unmodified opinion for 2017/18

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transaction</p> <p>Under ISA 240 (UK) 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.</p>	<p>Auditor commentary</p> <p>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:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Worcestershire County Council.</p>
<p>2 Management override of controls</p> <p>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.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Evaluated the rationale for changes in accounting policies, – reviewed journal entries and performed testing on large and unusual entries, – reviewed unusual significant transactions; and – reviewed significant related party transactions outside the normal course of business <p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to this test, is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It has been necessary to consider a number of different ways to achieve this, with a solution found in mid July. As a result the audit team are yet to conclude their testing in this area, and members will be provided with a verbal update at the meeting.</p>

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

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.

Auditor commentary

As part of our work in the area we have;

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work,
- reviewed the competence, expertise and objectivity of any management experts used,
- reviewed the basis on which the valuation was carried out and challenged key assumptions,
- reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding,
- tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

We are yet to complete our work in this area, with the key area that is outstanding in relation to testing of the revaluations made in year to the asset register.

Page 34
4

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.

Auditor commentary

As part of our work in this area we have;

- identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement,
- reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation,
- gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and
- reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.
- We are yet to complete our work in this area. The key work outstanding is in relation to how the Council have assured itself that the assumptions and methods used by the actuary are appropriate.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
<p data-bbox="47 271 82 307">5</p> <p data-bbox="120 268 569 292">New Financial System Implementation</p> <p data-bbox="120 297 569 464">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.</p> <p data-bbox="120 496 569 578">We identified the implementation of the new financial system as a risk requiring special audit consideration.</p>	<p data-bbox="569 268 818 292">Auditor commentary</p> <p data-bbox="569 307 1004 331">As part of our work in this area we have;</p> <ul data-bbox="569 345 1995 606" style="list-style-type: none"> • reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, • completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, • reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and • reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. <p data-bbox="569 616 1995 731">The implementation of the new financial system has presented the finance team with significant challenges in terms of preparation of the financial statements. There have been problems experienced with the reporting of the journal populations, and there were delays in the completion the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p> <p data-bbox="569 742 1995 825">The area that has had the biggest impact on the impact on the audit is the reporting functions within the finance system. Officers have found it difficult to produce detailed transactions listings for balances within the accounts, which in a number of instances has resulted in the audit team having to test more transactions. Some examples of the issues encountered are included below;</p> <ul data-bbox="569 839 1995 1363" style="list-style-type: none"> • The balance on the Accounts Payable control account included within the creditors note is £16,507,945. A report was requested which broke this balance down into the individual creditors at year end. Officers were unable to run a report which showed the individual balances at year end. As a result, a 'work around' was considered which shows the balances outstanding at year end with suppliers. This totalled £16,506,805. a difference of £1,139, which is trivial for the purpose of the audit. While the difference between the reports was trivial, we have had to undertake sample testing at a supplier level, which has led to the need to test more transactions than in prior years • A breakdown of the Accounts Receivable control account was provided, which totalled £16,358,244. The total value of the code that was included within the financial statements was £16,638,685. The population report provided to audit was £280,441 less than the value included within the financial statements • PPE additions. There was a difference of £106,282 between the value included within the financial statements and the breakdown provided for audit to be able to test transactions. The value in the financial statements was less than the breakdown provided. • Officers have provided us with payroll data broken down by month to enable a detailed substantive analytical review to be undertaken. The payroll reconciliation that has been undertaken is £2.5m more that the amount that has been included within the payroll data for the substantive analytical review. This difference is unexplained. • In many instances the populations we have sampled from have included a large number of journal entries, in many cases relating specifically to the implementation of the new financial system. This has made the audit work more complex and time consuming than in previous years. 	

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

7

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

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness,
- documented our understanding of processes and key controls over the transaction cycle,
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding,
- obtained the year-end payroll reconciliation and ensured the amount in the accounts reconciles to the ledger. Significant adjusting items have been reviewed; and
- agreed payroll related accruals to supporting documents and reviewed estimates for reasonableness.

Our audit work to date has not identified any issues in respect of employee remuneration, however the remains work outstanding on both national insurance payments and expenditure recorded in relation to superannuation.

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:

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness,
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls,
- documented the accruals process and controls management have put in place; and
- obtained a listing of non-pay payments in April and undertaken sample testing to ensure that the transaction have been coded to the appropriate year.




At the time of writing this report, we are yet to complete and evaluate the results of the sample testing, and this will be reported verbally to the committee.

Significant matters discussed with management




This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
1 Reporting from the Financial System	<p>While there is evidence that members of the finance team have worked hard to mitigate the impact that the new financial system has had on the accounts production process, it has presented significant challenges to both the finance team and the audit team. In previous years, finance officers were able to run detailed transaction listings directly from the ledger. This enabled members of the finance team to have a clear understanding of the transactions in each balance and for the audit team to test transactions in an efficient way. There have been numerous examples where members of the finance team have simply not been able to produce the transaction listings required, or they have taken significantly longer to produce than would be expected, having an impact on both the timeline and the resources needed for the audit. In some instances problems have been experienced as a result of the separation of responsibilities between the Council and Liberata.</p> <p>This was an area of risk that we highlighted as part of the audit plan in March, and we highlighted three specific actions for officers as follows;</p> <ul style="list-style-type: none"> • 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. <p>To follow up on the actions identified we agreed a further interim visit in April. As part of this visit, officers were able to demonstrate that processes were in place for the re-creation of the financial statements from the prior year using the information transferred into E5. Some transactions listings were produced for this visit. Some of the listings initially produced have not been reconciled into the set of financial statements produced at year end, resulting in some early testing undertaken been wasted effort. While we were able to undertake some early testing on journals, discussions with officers still highlighted that gaining assurance over the completeness of the journal population was still proving difficult, and that further work would need to be undertaken to ensure that this was ready for the final accounts visit.</p> <p>We have previously highlighted this is an area that remains outstanding at the time of writing this report. Officers are confident that they now have a solution in place and we will update members verbally during the committee meeting.</p>
2 Working papers	<p>As highlighted in the audit plan, there were some improvements in the working papers provided as part of the interim audit visit, and this has continued to some extent during the final accounts visit. As part of the audit plan we reminded officers that a good working paper enables a suitably experienced individual to be able to re-perform the work and understand. There are still areas that require substantial improvement to enable the audit visit to be completed efficiently and in line with the initial timescales set out. In particular, improved working papers are required when providing evidence for transaction testing. In almost all areas of the transaction testing undertaken, the initial evidence provided to support the transaction was insufficient, or lacked any appropriate explanation of the substance of the transaction. This has resulted in the audit taking longer than anticipated.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council's on revenue recognition is included in note 32.20 of the Statement of Accounts. 	<ul style="list-style-type: none"> The Council's policy is consistent with the relevant accounting framework and all material income streams are reflected in the policy. Minimal judgement is involved. The accounting policy is properly disclosed. 	 Green Accounting policy appropriate and disclosures sufficient
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include; <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Valuation of pension fund net liability 	<p>The Council's policy is appropriate and consistent with the Local Government code of Accounting Practice.</p> <ul style="list-style-type: none"> Reliance is placed on experts where appropriate Accounting policies are properly disclosed We have reviewed the accounting models the Council have used to calculate the entries required in the accounts for the current PFI schemes in operation. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. In all cases there are differences, however these are below our level of materiality and therefore we consider that no further action is required. We are still completing our work on reviewed the estimates and judgements used in assessing the pension fund liability as a significant risk. Members will be updated when this work is completed. 	 Green Accounting policy appropriate and disclosures sufficient
Other critical policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	 Green Accounting policy appropriate and disclosures sufficient

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation, with the exception of three. We continue to work with officers to chase these confirmations however we are likely to need to undertake alternative procedures to gain assurances over these balances.
	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements, however we have made recommendations to assist the Council in achieving greater compliance with the Code.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that work is not yet completed and the planned timescale for the work has been agreed with the Council as week commencing 6th August. This will ensure that the work will be completed by the statutory deadline.
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Worcestershire County Council in our auditor's report, as detailed in Appendix E as we are yet to complete the work required for the Whole of Government Accounts and the certification of the pension fund annual report.</p>

Value for Money

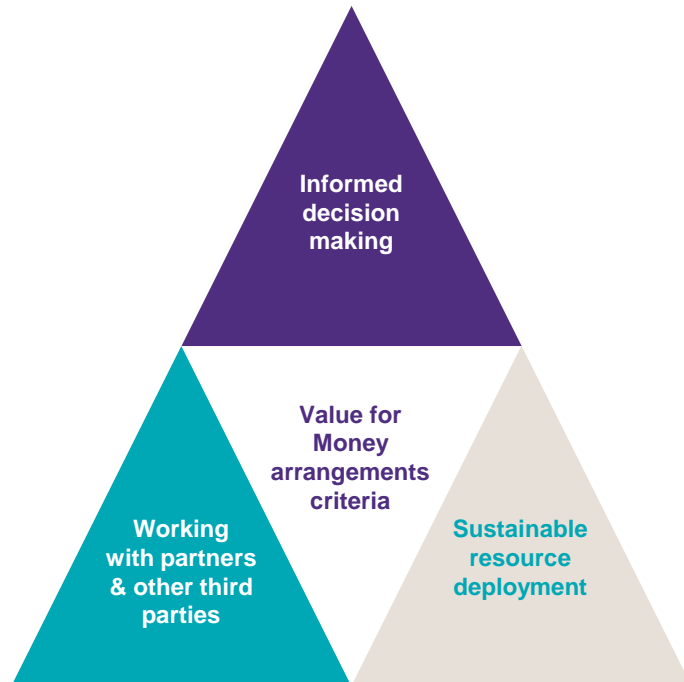
Background to our VFM approach

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:



Page 41

Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 16 March 2018

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The continuing arrangements that the Council has put in place to respond to Ofsted and implement the service improvement plan,
- The final outturn position for 2017/18 and progress towards closing the gap in future years,
- The current financial savings plans of the Council, and the delivery of those savings; and

The arrangements that the Council put in place for procuring and monitoring major contracts.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 18 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matters we identified in respect of Children's Services and Commissioning, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

In addition to the areas subject to qualification, we have also noted that the Council's financial position has started to erode as a result of limited success in achieving savings plans. While it has been possible to compensate for this through the use of reserves, the Council cannot continue to rely on this as a solution and needs to ensure that it sets and achieves realistic and achievable savings plans going forward. This will inevitably require taking some hard decisions, and this cannot be delayed.

Recommendations for improvement

We discussed findings arising from our work with management and have the following observations on action plans and recommendations for improvement.

We note that the Council has a detailed action plan to respond to the Ofsted report, which continues to be monitored through a variety of mechanisms. Similarly a written response is required following the SEND inspection, which again will be monitored in due course. As part of our VFM work in future years we will continue to review how these action plans are being implemented and how they demonstrate improvements in the overall services provided.

We have discussed our findings in relation to Commissioning with both the s151 officer and Chief Executive and understand that this is an area of focus for both of them in the current year. As part of our VFM work in future years we will review what actions have been taken to review and strengthen the arrangements.

The financial environment faced by the authority remains challenging and as a result we have made the following recommendation;

- Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Children's Services</p> <ul style="list-style-type: none"> Children's services 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 	<ul style="list-style-type: none"> The Council have continued to work hard to implement the service improvement plan agreed with Ofsted. During the period under review there have been four separate monitoring visits by Ofsted. The outcome of the most recent was published in May 2018. This report concluded that the local authority is making progress in improving services for children and young people. Essex County Council were appointed as an improvement partner to the Council. Working in partnership they have undertaken a number of diagnostic visits. Their most recent report in February 2018 recognised the hard work that the Council had undertaken and the positive commitment from all levels. It also went on to highlight that there remains a significant number of areas where improvement is needed. On 19 September 2017 the Council were issued with a direction which required them to develop an options analysis for alternative models for provision of children's services. Following a full business case, the Council have approved the implementation of a wholly owned Council Company for the provision of Children's services, with an anticipated go-live date of 1 April 2019. In addition to the Ofsted visits for Children's Services, the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities (SEND). The outcome of the inspection was to require a written statement of action because of significant areas of weakness in the local area's practice. The Council is now working with NHS Worcestershire Clinical Commissioning Groups to produce and submit an action plan to Ofsted that details how they are going to improve the arrangements and address the weaknesses identified. 	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council is making progress in this area there still remains evidence of weaknesses in proper arrangements for Children's Services, and therefore we are proposing an except for VFM conclusion. <p>Management response</p> <ul style="list-style-type: none"> Agreed

Key findings continued

	Significant risk	Findings	Conclusion
2	<p>Financial Sustainability of the Council</p> <ul style="list-style-type: none"> 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 findings to the Council and key decision making committees. 	<ul style="list-style-type: none"> Historically the Council has a strong track record of meeting its financial targets, and this has continued in 2017/18 with a small surplus being delivered. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. The overspends reported in these services are £6m for adults and £8.3m for children's services and reflect the increased demand for services, but also the complexity of the care required. These overspends have been mitigated by the use of reserves and a number of one off measures, such as reviewing the policy on capitalisation of highways expenditures, reviewing the approach to the Minimum Revenue Provision and using surplus cash to fund a pre-payment on pension contributions in exchange for a discount. The 2017/18 budget included a savings target of £26.5m, £5.2m of which would be met from a planned use of reserves. Taking this into account and then adding unachieved savings from previous years the actual target for the year was £27.9m. The Council achieved savings of £19.1m, which equates to 68% of the target. This is a further deterioration from the savings achieved in prior years, with the Council achieving 74% of its savings target in 2016/17. The Council recognise that savings are becoming more difficult to achieve, and in July 2017 commissioned a review by CIPFA of their financial planning and sustainability. The key finding from the review was to challenge the achievability of savings plans. As a result a central review was undertaken by the finance team of the savings plans agreed and £6.1m of savings plans were effectively written off as unachievable, adding to the level of savings needed in 2018/19 and beyond. The s151 officer has assessed the level of reserves as appropriate as part of the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £84.4m of earmarked reserves. Removing earmarked reserves relating to schools and the public health grant leaves a balance of £64m. While these are set aside for specific purposes, they could be used in the short term to help balance the budget. This £64m equates to almost double the saving target for 2018/19 and is 20% of net expenditure for the Council. The 2018/19 budget includes a savings target of £31.6m. £15.4m of this savings plan related to accounting adjustments and alternative sources of funding and is therefore considered achievable. £9.7m related to existing reforms and the remaining £6.5m are new proposals which remain subject to review and challenge. Like many other similar local authorities, the financial outlook remains challenging. In addition to savings of £31.6m in 2018/19, further savings of £19.6m in 2019/20 and £14m in 2020/21 are needed to achieve a balanced budget. For 2018/19 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years. In recent years the Council has been able to compensate for non-achievement of savings targets through use of reserves and various one off measures. This is not a sustainable position. Difficult decisions will be needed going forward to ensure that the Council is able to meet its objectives and balance the budget. 	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. <p>Management response</p> <ul style="list-style-type: none"> Agreed

Key findings continued

	Significant risk	Findings	Conclusion
<p>3</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 45</p>	<p>The ability to produce accurate and timely financial reporting</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> It has been well documented that the implementation of the new financial system has created challenges across the Council. In particular there have been errors made in both payments to suppliers and in payments to staff. Officers reacted promptly to these issues, and there is no evidence of material loss to the Council as a result of the errors made, however as discussed on previous occasions this has resulted in officers' time being diverted from other key tasks, such as the preparation of the financial statements for 2016/17. We have reviewed the impact that the new financial system has had on the Council's ability to monitor its budget and ensure that a sound control environment remained in place. Overall, at a strategic level, arrangements for monitoring and reporting on budgets were unaffected by the problems with the implementation of the new system. There is clear evidence that on more detailed level, budget holders, particularly schools, struggled with the new system and how best to obtain the information that they had previously relied on. Again this has been recognised by the Council, with alternative arrangements being put in place in the short term, while longer term solutions of further training and support are implemented. A key aspect of the control environment in relation to the new financial system are reconciliations between the ledger and the other sub systems, in particular the bank reconciliation. There were delays in these reconciliations on inception of the new system, with the bank reconciliation for April 2017 not being completed in July 2017. There is evidence that this improved during the year, with key reconciliations being completed for the year end preparation of the financial statements. A further aspect of the control environment is the assurance given by internal audit. As anticipated the implementation of a new financial system was a key focus for the internal audit plan for 2017/18, with eight reviews scheduled. In addition to the work planned by the County Council's internal auditors, work was also scheduled by AuditWest, as the auditors of the Council's contractors, Liberata. As at the end of May, only one final report had been issued by Internal Audit, and there had been no reporting by the auditors of Liberata. While work has remained ongoing, this has resulted in a reduced level of assurance being provided than anticipated on the operation of the new financial system in the current financial year. As highlighted elsewhere in this AFR, the Council were able to produce financial statements for 2017/18 in line with their timetable for publication and draft accounts were provided for audit as anticipated. The new system has created some difficulties in terms of reporting, particularly understanding how information is presented and can be used. This has caused delays in the audit process, and in some areas created additional testing, the details of which are included as part of the earlier part of this report to avoid duplication. 	<p>Auditor view</p> <ul style="list-style-type: none"> The Council has appropriate arrangements in place to produce accurate and timely financial reporting. There remain areas where improvements can be made in future years. <p>Management response</p> <ul style="list-style-type: none"> Agreed

Key findings continued

Significant risk	Findings	Conclusion
Commissioning arrangements	<ul style="list-style-type: none"> The Council have embraced the idea to be a commissioning Council, with over 75% of its services provided externally to the Council. In recent years a number of major contracts have been let, some of which have encountered severe delays and or disruption to services and members of the public. We considered the arrangements in place around these contracts, in particular, the Evesham Abbey Bridge replacement, Malvern Link Railway project, Bromsgrove Railway project, the Learning and Achievement contract with Babcock and the HR and Financial Services contract with Liberata. As these related to major contracts, the commissioning process has, not unexpectedly, spanned a number of years. In that time, the arrangements at the Council have changed, with the introduction of a Commissioning Toolkit, and a more centralised commissioning function. The introduction of the centralised commissioning function was as a result of the need to bring greater expertise and experience into this area and support the service departments commissioning the services. These arrangements have been developing during the period under which these contracts were let. In all but one of the contracts reviewed, Council officers have undertaken a review of the issues encountered during the procurement, often resulting in a 'lessons learned report' or limited assurance report from internal audit. These reports do not identify one persistent theme, or weakness in the arrangements. Instead they point to areas where contractors' assumptions could have been more robustly challenged, or where greater experience from the commissioning department could have led to better initial contract management. For the contracts we examined, the key driver for putting them out to tender was to fit with the agreed corporate objective to become a commissioning Council. As a result the potential disadvantages of providing these services from outside of the Council was not considered in reports to members. This remains consistent with our previous reporting on commissioning arrangements in 2014/15, where we highlighted that reports to members on the new operating model focused heavily on the potential advantages and savings that could be possible, but provided limited discussion on the risks and disadvantages. In all cases, the Council have acted positively and proactively to support the commissioning department, putting in extra resource to help rectify problems and minimise service disruption and delivery. This should however be the exception rather than the rule. While there is training available and guidance on the Council's intranet, the responsibility for the Commissioning of services lies with the individual service. There is no clear evidence that the lessons learned from major contracts are being considered and included in the appropriate training for officers engaged in procurement activity and as a result there remains a risk that further issues could be encountered with other major contracts. 	Auditor view <ul style="list-style-type: none"> While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we are proposing an except for VFM conclusion. Management response <ul style="list-style-type: none"> Agreed

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 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 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Page 47 SFA compliance certification (2017/18) Note – Officers have approached us about undertaking this work for the 2017/18 year, however no formal engagement letter has yet been signed.	£4,000	Self-Interest	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 all mitigate the perceived self-interest threat to an acceptable level.
TPA certification (year ended March 2018) Note – Officers have approached us about undertaking this work for 2017/18 year, however no formal engagement letter has yet been signed.	£4,200	Self Interest	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 all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None identified for 2017/18	Nil	Nil	




The amounts detailed are fees agreed to-date for audit related and non-audit services 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.

Action plan

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	 <p>The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a more timely and efficient manner.</p>	<p>Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.</p> <p>Management response</p> <ul style="list-style-type: none"> • Agreed
2	 <p>Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process.</p>	<p>The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.</p> <p>Management response</p> <ul style="list-style-type: none"> • Agreed
3	 <p>VFM – Financial Sustainability</p>	<p>Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.</p> <p>Management response</p> <ul style="list-style-type: none"> • Agreed

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council's 2016/17 financial statements, which resulted in seven recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note three are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> All officers that post journals should be reminded of the need to include a description of the journal. 	We undertook some limited testing of journal entries as part of our interim audit. This did not identify any missing journal descriptions. We are yet to conclude our journal testing as part of the year end process.
2	~	<ul style="list-style-type: none"> The accounts production process should be reviewed for next year. The review should focus on how roles and responsibilities are allocated and how progress will be monitored and reported. Sufficient resources should be included in the plan to include quality assurance, and detailed training to those outside of finance as to their responsibilities. 	The interim s151 officer undertook a detailed review of the accounts production process and this was reported to members. As a result, roles and responsibilities in the finance team were reviewed and a greater focus was put on the production of the financial statements. There have been additional members of the team get involved in the accounts production process, and in some areas there has been appropriate evidence of quality assurance. A high level of quality assurance has not operated across the board and while there have been areas where the quality of working papers as part of the final accounts production process has improved, these areas remain in the minority.
Page 49	~	<ul style="list-style-type: none"> The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a timely manner. 	As we reported as part of our audit plan in March, this was an area on the timetable that had slipped. Officers were however able to demonstrate that the key processes necessary to produce the financial statements were in place prior to the end of the year. The area that has created greatest difficulty is around detailed transaction listings to enable both finance and audit staff to test the balances held within the accounts. This is a key area for improvement for the upcoming year to ensure that the timetable can be met in an efficient manner.
4	✓	<ul style="list-style-type: none"> It is recommended that the process for compiling the AGS is reviewed, drawing on practices from elsewhere. In particular this needs to focus on the use which is made of the officers assurance statements, how they are evaluated and by whom. There need to be clear evidence that the issues are considered by appropriate management of the authority and that the decision is not limited to finance staff. 	Officers put in place a new process in the year for compiling the AGS, which appears to have worked well. The process ensures involvement from across the Council. We have not identified any omissions from the statement and consider it to be consistent with our knowledge.

Assessment

- ✓ Action completed
- X Not yet addressed
- Part addressed

Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5 ✓	<ul style="list-style-type: none"> Consideration should be given to the note on related parties next year to improve clarity. We have also noted that officers have not been reminded of their responsibilities in respect of conflicts of interest and declaration required for the financial statement disclosures. 	<p>The note has been simplified this year from prior years. The process for compiling the note has been reviewed and confirmation has been gained from heads of service as to it's completeness.</p>
6 ✓	<ul style="list-style-type: none"> In addition we have noted that the format of the note 2.01.1 is not in accordance with the Code in the way assets under construction are shown as effectively negative additions. Consideration should be given to aligning this note with the examples provided in the Code. 	<p>The format of this note has been changed for the current financial year and now aligns with the examples provided within the Code.</p>
7 ~	<ul style="list-style-type: none"> The CFO should ensure that sufficient staff resource and expertise is available to resolve issues raised during the interim audit visit before the financial statements are produced. 	<p>While the second interim audit visit undertaken in April went well, there remained key issues outstanding at the end of this visit that were not addressed prior to the financial statement audit. In particular these were the actions on the completeness of the journal population and the need to improve the working papers for individual transaction testing.</p>

Assessment

- ✓ Action completed
- X Not yet addressed
- Part addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Statement/Notes affected
1 Creditors: Manual Accruals: The value included in the draft accounts for creditors manual accruals is £25,114,068.88. The Council included an incorrect adjustment for £23,847,344.00 which should have been £20,000,000. This gives a balance for creditors manual accruals of £21,266,724.88 and a variance from the original value of £3,847,344. The opposite entry is in debtors see below.	Balance sheet and creditors note (note 25)
2 Debtors: Manual Accruals: The value included in the draft accounts for debtors manual accruals is £25,220,494. The Council included an incorrect adjustment which should have been for £20,000,000. This gives a balance for debtors manual accruals of £21,549,186 and a variance from the original value of £3,671,308. The opposite entry is in creditors - see point 9 above, although the two variances between the original and the draft accounts do not net to nil - there is a variance of £176,036, which for the purpose of the accounts is considered trivial.	Balance sheet and debtors note (note 23)
3 NNDR appeals provision. The Council have included this as a long term creditors (as in 2016/2017) but the nature of the transaction is that it is a provision. The value for 2017/2018 is £2,153,747 and the value for 2016/2017 was £1,661,593.	Balance sheet and long term creditors (note 21.1)

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Presentation and disclosure	<p>Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The initial volume of queries raised this year has reduced from the prior year and is more in line with expectations.</p> <p>The proposed minor adjustments were agreed with officers and changes have been made to the draft accounts that were submitted for audit.</p> <p>Examples include, a small number of prior year figures incorrectly brought through to the draft accounts, amendments to the narrative report to ensure consistency throughout the whole of the report, and missing note references on the MiRS, cashflow statement, the defined benefit pension scheme and critical judgements.</p>	✓
Note 19.2 Revaluations	<p>The column for Vehicles, Plant, Furniture and Equipment totalled £179.9m, however only one entry was included of £69.6m. The Council had omitted an entry of £110.3m which were for these assets held at cost.</p>	✓
Note 9.2 Senior employees' remuneration	<p>Nine errors were identified with the notes included within the draft financial statements. These can be categorised as follows;</p> <ul style="list-style-type: none"> • 4 errors where the incorrect position end date had been included • 2 errors where the incorrect expenses had been included • 2 errors where the incorrect salary had been included, and • 1 error where the incorrect start date had been included. 	✓

Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Reason for not adjusting
<p>1 Note 1.02 Adjustments between Accounting Basis and Funding Basis under Regulation. Officers have provided audit with a revised note. The revised note has amended the 'capital grants and contributions unapplied credited to the CI&E Statement' line. The revised amount no longer agrees to that as presented in the grants note 1.09.2. There is an unexplained difference of £1.3m, which we have treated as an unadjusted misstatement.</p>	<p>This was considered to be immaterial, no subsequent adjustments have been made in the current year financial statements.</p>
<p>2 Note 4.01 Usable Reserves. Officers have amended the draft note provided at the start of the audit. The capital grants unapplied now has a closing balance of £52.4m. This amendment figure is different to the grants note 1.09.2 by £1.1m. This is an unexplained difference, which we have treated as an unadjusted misstatement.</p>	<p>This was considered to be immaterial, no subsequent adjustments have been made in the current year financial statements.</p>
<p>Page 53 Creditors – The short-term creditors balance in the draft accounts includes £15.4m in respect of s106 and s278 contributions, which should be recorded as capital grants and contributions received in advance, within the long-term liabilities section of the balance sheet. This is the treatment adopted by the majority of councils, although we acknowledge that there is some inconsistency on this arising from confusion at the time the current accounting arrangements were implemented.</p>	<p>We agreed with officers last year that this misclassification was not material to the accounts, and that a subsequent amendment would be made within the 2017/18 accounts. This amendment has been made in the draft financial statements.</p>

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	95,446	TBC*
Total audit fees (excluding VAT)	£95,446	£TBC*

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

The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted we have needed to undertake additional work as a result of the challenges of the reporting from the new financial system, and as a result of the quality of the working papers initially provided. Work is still on-going in key areas, and therefore an accurate assessment of the overrun cannot be made at this date. We will agree the proposed fee variation with the Chief Financial Officer and submit for approval via PSAA before reporting the final fee in our Annual Audit Letter.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• SFA compliance certification (2017/18)	£4,000
• TPA certification	£4,200
Non-audit services	Nil

Audit opinion

We anticipate we will provide the Council with an modified audit report

Independent auditor's report to the members of Worcestershire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Worcestershire County Council (the 'Authority') for the year ended 31 March 2018, which comprise the Comprehensive Income and Expenditure Statement, the movement in reserves statement, the Balance Sheet, the Cash Flow Statement, and the notes to the financial statements, including a summary of significant accounting policies.. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

Our opinion the financial statements:

give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended; have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 28 to 112 , the Narrative Report, the Annual Governance Statement and the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matters:

Children's Services

In January 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that:

- there are widespread and serious failures in the services provided to children in Worcestershire who need help and protection and children looked after; services for care leavers are inadequate, because young people leaving care do not consistently receive the necessary support to make a successful transition to adulthood; services for children in need of adoption require improvement; and elected members and senior leaders have not taken sufficient action to ensure the protection of vulnerable children.

Following the inspection the Council put in place a service improvement plan. The plan was accepted by Ofsted and during the last 12 months Ofsted published four letters summarising their findings from monitoring visits. The most recent was published in May 2018 and concluded that while the Council continues to improve, many of the processes put in place are still new and will need time to embed.

In addition the Council also received a separate visit from Ofsted in relation to services for Special Education Needs and Disabilities. The visit was undertaken in March 2018, with the results published in May 2018. The outcome of the inspection was that a written statement of action is required because of significant areas of weakness in the local area's practice.

These matters are both evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Commissioning

In recent years the Council has awarded a number of major contracts which have not delivered the anticipated outcomes, resulting in service disruption and the need for the Council to input additional resources to ensure that services are delivered in line with expectations. The most recent was the contract for HR and Finance Services. While the Council has in each case investigated the cause of the problems, it is not clear how the learning is being understood and disseminated to all staff involved within Commissioning, or that the relevant staff all have appropriate skills to ensure contracts are procured and implemented effectively.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Director

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

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT
xx July 2018

Audit Findings

Year ending 31 March 2018

Worcestershire County Council Pension Fund

18 July 2018

Page 59



Contents



Your key Grant Thornton team members are:

John Gregory

Director

T: +44 121 232 5333

E: john.gregory@uk.gt.com

Helen Lillington

Manager

T: +44 121 232 5312

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

Kathryn Kenderdine

Executive

T: +44 121 232 5316

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

Section

1. Headlines
2. Financial statements
3. Independence, ethics and audit fees

Page

- 3
- 4
- 14

Appendices

- A. Action plan
- B. Audit adjustments
- C. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Worcestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;

Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 15. We have not identified any adjustments to the Fund's reported financial position. However, we have recommended a number of adjustments to improve the presentation of the financial statements and ensure greater alignment with the Code.

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix C. These outstanding items include:

- Testing of journal transactions,
- cash balances,
- testing of contributions,
- review of the final version of the financial statements,
- obtaining and reviewing the management letter of representation,
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of the annual report

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- Testing of journal transactions,
- cash balances,
- testing of contributions,
- review of the final version of the financial statements,
- obtaining and reviewing the management letter of representation,
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of the annual report

Page 62

Our approach to 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.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Worcestershire County Council Pension Fund.

	Amount	Qualitative factors considered
Materiality for the financial statements	£24.8m	Net assets provide measures of the scale of the organisation and are the primary determinant of the size of the organisation and so is considered to be the appropriate determinants of the benchmark to be used. We determined that using 1% of net assets was appropriate.
Performance materiality	£16.1m	On the basis that the Council have implemented a new general ledger system in the current financial year, and that there has been a change in the finance staff responsible for the preparation of the pension fund financial statements we have determined that 65% of materiality would be an appropriate level for performance materiality.
Trivial matters	£1.2m	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit and Governance Committee as 'Those Charged with Governance'
Materiality for specific transactions, balances or disclosures	Related party transactions (5% of the largest disclosure)	While the significant proportion of this note relates to dealings with the administering authority, the key management personnel disclosure is included within this note. Due to the potential public interest in this note a lower level of materiality is considered appropriate.

Going concern

Our responsibility

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).

Going concern commentary

Management's assessment process

The Chief Financial Officer as s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- no decision has been to wind up the Pension Fund and no events triggering wind up have occurred.
- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- no material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund's ability to continue as a going concern exist that require disclosure.

Auditor commentary

Chapter 6 Section 3.4 of the CIPFA Code on the “*Presentation of Financial Statements for Pension Funds*” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2017/18 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future”.

For defined benefit schemes the Pension SORP 2015 gives further guidance (paragraph 3.29.6) in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme.

The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority.

Management have not carried out a formal written assessment in respect of the going concern of the pension fund. However discussions with management have identified:

- The fund is a statutory pension provider and therefore cannot legally close.
- The actuary has set contribution rates for all employers up to 2019/20, which re-affirms that the fund intends to continue as a going concern.
- The fund also do daily monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval to the financial statements. This shows a positive cash balance is maintained throughout.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Going concern

Going concern commentary

Work performed

We have reviewed the :

- pension fund's daily cash flow forecast
- Actuary's sttmnt.

Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- As at the 2016 actuarial valuation, the fund was assessed as 75% funded. This corresponds to a deficit of £654m.
- The aim is to achieve 100% solvency over a period of 18 years.
- The cashflow forecast shows positive cash balance throughout the period.

Concluding comments

Auditor commentary

We propose to issue an unmodified opinion for 2017/18.

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition Under ISA 240 (UK) there is a 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.</p>	<p>Auditor commentary Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Worcestershire County Council Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Worcestershire County Council Pension Fund.</p>
<p>2 Management override 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. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, • Obtained a full listing of journal entries, • Identified and tested unusual journal entries for appropriateness, • Evaluated the rationale for any changes in accounting policies or significant unusual transactions, and • reviewed significant related party transactions outside the normal course of business <p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to this test, is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It has been necessary to consider a number of different ways to achieve this, with a solution found in mid July. As a result the audit team are yet to conclude their testing in this area, and members will be provided with a verbal update at the meeting.</p>

Significant audit risks

3

Risks identified in our Audit Plan

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.

Commentary

Auditor commentary

As part of our work in this area we have;

- Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;
- considered the competence, expertise and objectivity of any management experts used;
- reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and
- for a sample of investments, tested 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 have reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period.

Our audit work has not identified any significant issues in relation to the risk identified.

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.

Auditor commentary

As part of our work in this area we have;

- Reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved;
- completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances;
- reviewed the control accounts and bank reconciliations to ensure that appropriate financial control has been maintained throughout the period; and
- reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers.

Given the more 'contained' nature of the pension fund, and the reliance on information from third parties for a significant proportion of the data needed to produce the financial statements, the impact of the new financial system on the pension fund has not been as great as for the Council final statements. As for the County Council, there have been problems experienced with the reporting of the journal population, and there were delays in the completion of the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

Contributions

Contributions from employers and employees' represents a significant percentage (74%) of the Fund's revenue. We therefore identified occurrence of contributions as a risk requiring particular audit attention

Auditor commentary

As part of our work in this area we have;

- evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
- gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls;
- tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and
- rationalised 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.

Our audit work to date has not identified any significant issues in relation to the risk identified, however we are yet to conclude our testing on the sample of contributions.

Pension Benefits Payable

Pension benefits payable represents a significant percentage (85%) of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention:

Auditor commentary

As part of our work in this area we have;

- **evaluated** the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;
- tested a sample of individual pensions in payment by reference to member files; and
- rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Our audit work has not identified any significant issues in relation to the risk identified.

Reasonably possible audit risks

Risks identified in our Audit Plan

7

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 identified valuation of level 2 investments as a risk requiring particular audit attention.

Commentary

Auditor commentary

As part of our work in this area we have;

- gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;
- considered the competence, expertise and objectivity of any management experts used;
- reviewed the qualifications of the expert to value the level 2 investments at year end and gained an understanding of how the valuation of these investment has been reached; and
- for a sample of investments, tested the valuation by obtaining independent information from custodian/manager on units and unit prices.

Our audit work has not identified any significant issues in relation to the risk identified.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary
1	Working papers	<p>We appreciate that this has been a difficult year for the production of the pension fund financial statements. Not only has there been the change in the financial system ,but also a significant change in the officers responsible for producing the financial statements.</p> <p>While working papers were available for the start of the pension fund financial statements audit, in many areas these were difficult to follow, or lacked an explanation of the rationale used to produce the numbers within the statements. Members of the finance team have been responsive to queries and proactive in seeking solutions, however the volume of initial queries raised has had an impact on the work that the audit team has had to complete, and the amount of time taken to complete the audit.</p> <p>We will continue to support members of the finance team and share good practice to help them achieve the necessary improvements for future years.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.	The policies are considered appropriate under the accounting framework in place.	● (Green)
Judgements and estimates	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The Fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<p>The policies are considered appropriate under the accounting framework in place.</p> <p>Overall sufficient assurance has been provided by either the experts used for valuing the Fund, or we have been able to agree valuations to third party evidence.</p>	● (Green)
Other critical policies	The remainder of the Fund's Accounting policies are set out in part 5 of the financial statements. We have reviewed these against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.	● (Green)

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A standard letter of representation has been requested from the Pension Fund.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation. We are currently awaiting a small number of controls reports and bridging letters from fund manager, and officers are working to chase these as a matter of urgency.
⑥ Disclosures	Our review of disclosures has identified a number of areas where these could be improved. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made.
⑦ Significant difficulties	We have not encountered any significant difficulties in the completion of our audit that we need to bring to your attention.
⑧ Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1 st December 2018 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 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 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£24,963	TBC*
Total audit fees (excluding VAT)	£24,963	TBC*

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

* The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted we have needed to undertake additional work as a result of the challenges of the reporting from the new financial system, and as a result of the quality of the working papers initially provided. Work is still on-going in key areas, and therefore an accurate assessment of the overrun cannot be made at this date. We will agree the proposed fee variation with the Chief Financial Officer and submit for approval via PSAA before reporting the final fee in our Annual Audit Letter.

Non Audit Fees

Fees for other services

Fees

Audit related services:

IAS 19 Assurance to other auditors	TBC (p/y £1,193)
------------------------------------	------------------

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

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA), and is consistent with that reported in the financial statements for the 2017/18.

Action plan

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	<p>Working papers</p> <p>The introduction of the new financial system has created a number of challenges for the production of the pension fund financial statements for the current year. As a result there are a number of areas where working papers could be improved to demonstrate how the output from the ledger is translated into the financial statements.</p> <p>In addition, where information has been provided by third parties, for example, the custodian, there should be clear working papers to demonstrate how these reports link into the financial statements. Where appropriate, a brief narrative should be added to the working papers to demonstrate the rationale and any assumptions made. In key areas, the fund should be able to demonstrate that it understands the judgements made by third parties, and that there is appropriate evidence of challenge.</p>	<p>Recommendations</p> <ul style="list-style-type: none"> A review of working papers should be undertaken to ensure they are fit for purpose. There should be clear evidence of appropriate quality assurance of the working papers. <p>Management response</p> <ul style="list-style-type: none"> We fully agree and recognize the need to improve. A lessons learnt exercise will be undertaken and we will work with Grant Thornton to improve papers ahead of the 2018/19 closedown.
2	●	<p>Compliance with the Code</p> <p>We have identified areas where the pension fund accounts are not in accordance with the Code. In some cases, because of the nature of these areas of non compliance we have agreed with officers that these improvements can be made in future years.</p>	<p>Recommendations</p> <ul style="list-style-type: none"> A review of the accounts should be undertaken against the CIPFA example accounts, to ensure that the presentation and disclosure is in line with expectations. We have highlighted to officers that there are some notes and disclosures in the accounts currently produced which are no longer required,. There is scope to streamline the statements as a whole and remove the explanatory foreword and incorporate this with that currently produced for the County Council. <p>Management response</p> <ul style="list-style-type: none"> Agreed. A review will be completed before 31st December 2018.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Presentation and disclosure	<p>Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes have been made to the draft accounts submitted for audit.</p> <p>Examples included the need to include amend the number of fund manager in note 3 from thirteen to twelve to ensure consistency throughout the accounts, and the need to include a reference to the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016). This is in addition to the need to tidy up formatting and some punctuation prior to publication.</p>	✓
Accounting policies	The disclosure checklist has identified two missing accounting policies, one on accruals of expenditure, the other on contingent liabilities. The fund have agreed to amend for these in the final version of the financial statements.	✓
New standards not yet adopted	Disclosure around accounting standards issued not adopted in particularly, IFRS9 and IFRS15 have not been included. The Fund have done a high level review of the impact of these new standards and not identified a material issue. A note is being included in the final version of the statements to this effect.	✓
Contributions	<p>The second table in note 5 shows the contributions by authority. The Council have provided a working paper which shows how the figures in the note have been arrived at. In agreement of the note there are differences. The changes made to the note are as follows:</p> <p>Worcestershire County Council is currently £77.6m but it should be £77.9m</p> <p>Scheduled Bodies is currently £92.1m but it should be £91.6m</p> <p>Community admission bodies currently is £6.3m but it should be £6.5m</p>	✓

Audit opinion

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

Independent auditor's report to the members of Worcestershire County Council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of Worcestershire County Council (the 'Authority') for the year ended 31 March 2018 [set out on pages 115 to 178 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

Page 76: Our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Report and Statement of Accounts set out on pages 115 to 178 other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Report and Statement of Accounts, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:
we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer.

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Chief Financial Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT
xx July 2018



© 2018 Grant Thornton UK LLP. All rights reserved.

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

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

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

ANNUAL GOVERNANCE STATEMENT 2017/2018

Recommendation

- 1. The Chief Financial Officer recommends that the Annual Governance Statement 2017/2018 be approved.**

Background

2. The Council is required, as part of its ongoing review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2017/18. This has been signed by the Leader of the Council and Chief Executive. The AGS will form part of the Annual Statement of Accounts.
3. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2017/18 and takes into account any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS outlines the actions taken or proposed to address governance issues identified.
4. The AGS is drafted by the Corporate Risk Management Group based on information provided by senior officers. The evidence comes from a variety of sources, including service / plans, relevant lead officers within the organisation, internal and external auditors and inspection agencies.

Content

5. The AGS demonstrates how the Council is meeting the principles of good governance in accordance with the CIPFA / SoLACE Delivering Good Governance in Local Government Framework. These principles aim to ensure that the Council is:
 - Conducting our business in accordance with all relevant laws and regulations;
 - Safeguarding and properly accounting for public money; and
 - Using resources economically, efficiently and effectively to achieve agreed priorities which benefit local people.
6. As part of the review of the Council's effectiveness significant internal control issues affecting the Council are identified. In accordance with CIPFA guidance, an issue is regarded as significant if:
 - The issue has seriously prejudiced or prevented achievement of a principal objective;

- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- The issue has led to a material impact on the accounts;
- The Audit and Governance Committee has advised that it should be considered significant for this purpose;
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

7. The AGS includes the following governance issues as areas for improvement. Items which were included in the 2016/17 AGS and remain governance issues following review in 2017/18 are:

- Sustainable improvement in Children's Services – following an Ofsted assessment that our Children's Services were inadequate, a Service Improvement Plan was put in place in early 2017 and has been regularly monitored and reviewed since then. Whilst this remains a risk there is now an agreement to establish an Alternative Delivery Model.
- Migration of Human Resources and Finance Systems – the new HR and Finance systems went live in April 2017 and there were a number of issues with the migration. Recovery plans were put in place and there are some residual issues which continue to impact on the business of the Council.
- Ensuring the delivery of the Council's vision and corporate objectives, in line with the Medium Term Finance Plan – the Council achieved a balanced budget in 2017/18 although not all planned savings were achieved. Alternative savings have been found and use has been made of reserves. A balanced budget has been set for 2018/19, however given the scale of savings required for the future this remains a governance issue.

8. The following new issues have been identified as part of the 2017/18 review process:

- Sustainable improvement in Children's Services – alongside the issue identified above, Children's Services will be responding to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection.
- Adult Social Care Operational Pressures – the local health and social care economy is under considerable demand pressure. The Council is actively working with its partners in the Health and Independent Sectors.

- Staff capacity, recruitment and retention – the Council has undergone significant change in its Senior Leadership Team and this has led to a period of settling and challenge. The risk of staff retention and workforce planning will be considered as part of any change programme, alongside national health issues such as Human Pandemic Flu.

9. The governance of the Council will continue to be monitored by Cabinet, Audit and Governance and other councillor committees, and the Council's Strategic and Wider Leadership Teams.

10. Grant Thornton, the Council's external auditors, have considered the AGS as part of their external audit, and have confirmed that it is consistent with their knowledge of our organisation and the financial statements.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix: Annual Governance Statement

Background Papers

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

This page is intentionally left blank



Annual Governance Statement - **DRAFT** Worcestershire County Council 2017/18

Contents

	Page
<u>Introduction</u>	3
<u>The Governance Framework</u>	4
<u>Review of Effectiveness</u>	9
<u>Significant Governance Issues</u>	10
<u>Certification</u>	12

Further information about Worcestershire County Council can be found at:

www.worcestershire.gov.uk/

1. Introduction

Worcestershire County Council provides key services to over half a million residents, and our role is to improve Worcestershire as a place and help people to find the solutions they require to the problems they face. We are responsible for ensuring that our business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

Each year the County Council reviews its governance arrangements and we publish an Annual Governance Statement, in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (The Framework). This review gives assurance that:

- ▶ our business is conducted in accordance with all relevant laws and regulations
- ▶ public money is safeguarded and properly accounted for
- ▶ resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

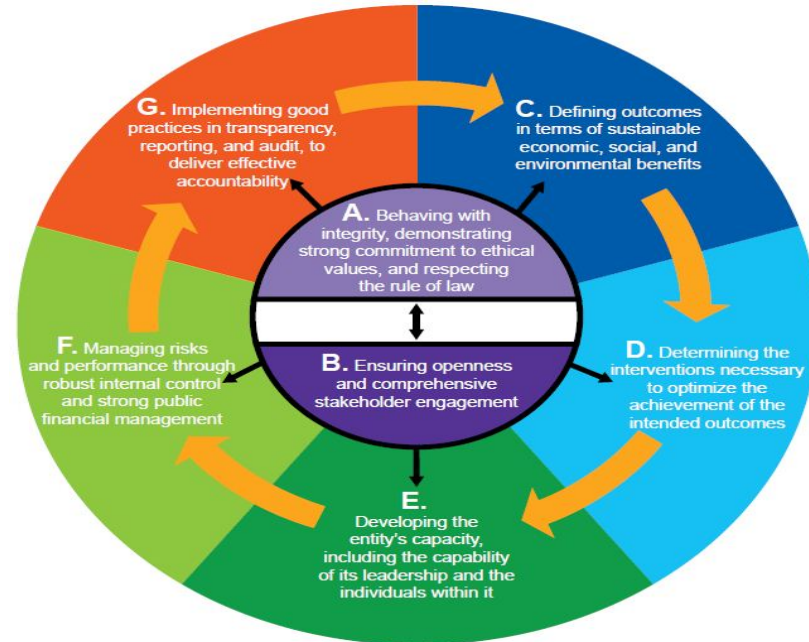


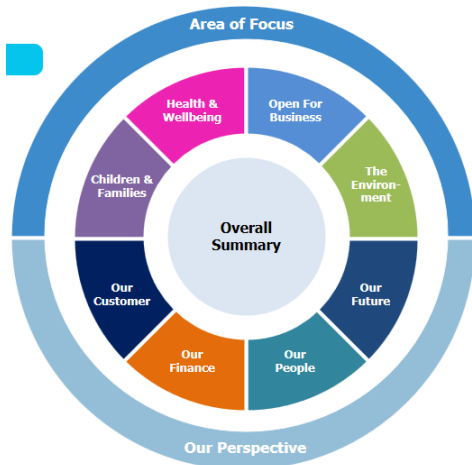
Figure 1 CIPFA's principles of good governance in the public sector

2. The governance framework

The CIPFA/SoLACE governance framework comprises systems and processes for the direction and control of the County Council and its activities through which it accounts to, engages with and leads the community. It enables us to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The County Council has approved the requirements of the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016, and a number of specific strategies and processes for strengthening corporate governance such as the Balanced Scorecard.



Our Balanced Scorecard is used to show the relationship between the intended outcomes of the Corporate Plan - Shaping Worcestershire's Future with the vital finance, workforce and process measures that support their delivery. The Balanced Scorecard is available to the public via the County Council's website to improve accountability to local communities. Performance is

measured and reported internally on a quarterly basis and publicly every six months.

Set out below are the activities carried out by the County Council which contribute to our delivery of the seven principles in the CIPFA/SoLACE Framework during 2017/18.

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

We have arrangements in place to provide assurance that our values are upheld and that members and officers demonstrate high standards of conduct and behaviour.

These include:

- ▶ Code of conduct for officers and members (including gifts and hospitality, registering interests, anti-fraud and whistleblowing);
- ▶ The inclusion of ethical values in policies and procedures for all areas including procurement and partnership working
- ▶ Complaints Procedure to ensure that all complaints are investigated properly and are responded to as quickly as possible.
- ▶ A commitment to equality of opportunity for all citizens that celebrates the diversity of all residents. This is integral to everything we do including policy development, service delivery and partnership working to ensure we meet the Public Sector Duty as set out in the Equality Act 2010 and that we do not unlawfully discriminate with services we deliver.
- ▶ Our Constitution sets out the conditions to ensure that all officers, key post holders and members are able to fulfil their responsibilities in accordance with legislative requirements so that we are efficient, transparent, accountable to our residents and compliant with the law. Roles and responsibilities for individual Members, the Council, Cabinet and senior officers, along with the delegation of statutory powers and executive functions, and protocols on member / officer relations are documented.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

The Chief Executive and Strategic Leadership Team very much value and are committed to acting on staff feedback. The County Council has an annual staff survey and Staff Involvement sessions, the results of which are shared and staff are involved in issue resolution arrangements.

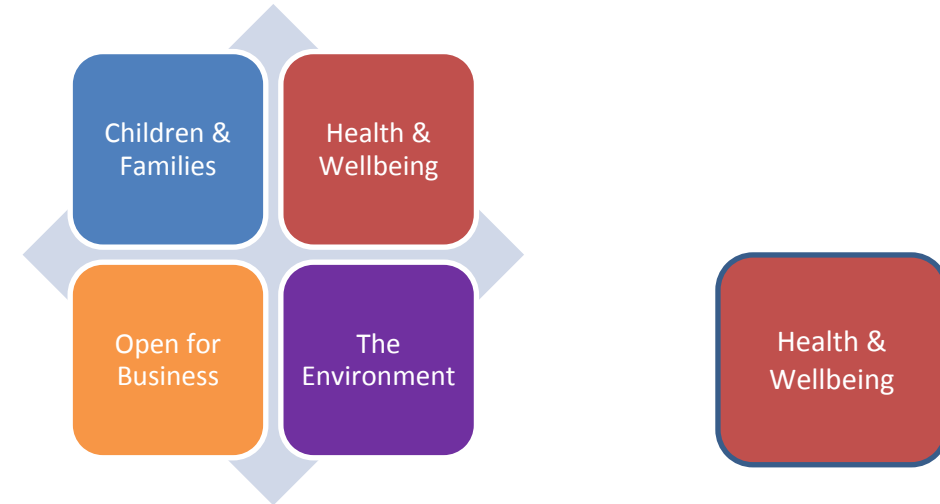
Throughout 2017/18 the County Council's "Have Your Say" Roadshows have enabled Worcestershire County Councillors and Officers to actively engage with members of the local community. Feedback from these sessions helps to inform the council's four corporate priorities: supporting Children and families, promoting Health and Well Being, protecting the Environment and championing Open for Business.

We are registered as a data controller under the Data Protection Act as we collect and process personal information. We have procedures in place that explain how we use and share information and arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office.

Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

We are aiming to become a financially self-sufficient Council. To achieve this aim, we will promote and support businesses in the County, businesses looking to relocate to the county and those businesses we work closely with.

We hold four key priorities that will help us shape the future vision for Worcestershire



Children & Families **Open for Business** It is an exciting time to be doing business within Worcestershire with major current and future planned improvements in workforce skills, employment, infrastructure and productivity.

The Environment With a strong focus on improving outcomes for the children, young people and families of Worcestershire we have been enabled 90% of our schools to achieve a good or outstanding rating by Ofsted, with 70% of young people achieving five or more good GCSE's and facilitated an increase in the number of young people moving successfully into employment. However, we will strive for continuous

improvements in these areas and our providers are key in achieving this.

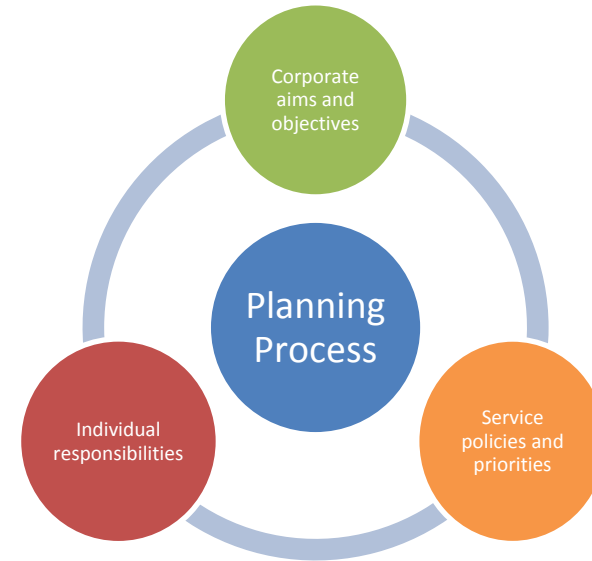
Worcestershire's environment is one of our key features and is crucial to the success of Worcestershire's tourism economy, whilst also providing an attractive place to invest for business. We have a strong commitment to improve our transport networks and this will require equal commitment from local innovative companies.

By working with local partners we can ensure that the residents of Worcestershire are healthier, live longer, have better quality of life and remain independent for as long as possible. In order to achieve this, we must ensure that we are working with good quality care providers with a strong focus on outcomes, not just outputs.

All Services have plans in place which correlate with the budget approved by the County Council and the key outcomes contained in the Corporate Plan. Management of these plans varies by service, but includes key performance indicators, ongoing outcome monitoring and reports to management teams and committees as appropriate

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The County Council's planning process works to link all elements of delivery.



The Corporate Plan – Shaping Worcestershire's Future, 2017 – 2022, is a single document setting out the County Council's vision and overall strategic direction.

Shaping Worcestershire's Future



Against each key area of focus the Plan identifies a number of key aims and targets, which are managed through the Balanced Scorecard. Responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans.

Progress against the Corporate Plan - Shaping Worcestershire's Future is monitored and reported to councillors on a regular basis.

Updates take account of achievements against the Plan and any new information that needs to be included.

Statutory plans, as prescribed by Central Government, and Service Delivery Plans, which cover areas of service not covered by statutory plans, provide strategic direction and contain aims and objectives for individual services.

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Our vision is to drive change, develop talent and optimise potential. Our role as managers and leaders is to identify, develop, motivate and retain the talent potential within the workforce to allow it to be future fit. We believe that by reviewing the talent and potential of our workforce we will better understand and identify the potential we can develop over the coming years

Our Corporate Plan "Shaping Worcestershire's Future" builds on the following key theme identified within the 2015 Future Fit Corporate Plan:

"Investing in and growing the talent within our organisation at the same time as dealing with poor performance to ensure we continue to have a workforce that is fit for the future".

We believe that by reviewing the talent and potential of our workforce we will better understand and identify the potential we can develop over the coming years. By establishing clearer and longer term workforce requirements and priorities, talent strategies can be developed to address supply vs demand.

Staff development is a crucial component of the Talent Management Programme. Development and support opportunities have been designed to enable individual employees to become "the best they can be" and help prepare them for emerging opportunities whether as a future manager or leader, senior manager, Head of Service or Director.

As a County Council, our main goal is for people to feel that Worcestershire is a fantastic place in which to live and work and making that a reality.

So an essential part of what we do is to listen to our residents – communities, service users and businesses – and act upon what they tell us is important to them.

In order to deliver these objectives, we rely on our staff to carry on the great work they already do on a daily basis which is underpinned by Our People Values:

- **Customer Focus** - "putting the customer at the heart of everything we do"
- **'Can do' Culture** – "being proactive to achieve excellence"
- **Freedom within Boundaries** – "courage to make constructive change"

This philosophy and way of working has shaped our aspirational and ambitious Corporate Plan, which is based on feedback from some of the most far-reaching consultations we have ever carried out.

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Risk management is about the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It is also the successful management of the controlled environment in which the decision making process is undertaken, such that positive risks are taken in order to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements.

The County Council's anti-fraud and corruption strategy embeds effective standards in countering fraud, corruption and theft. The

Director of Finance is responsible for ensuring this strategy is applied and that the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is followed. The County Council's Money Laundering Strategy was approved for 2017/18. Having considered all the principles, we are satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Financial Regulations set out our financial management framework for ensuring we make the best use of the money we have available to spend. It outlines the financial roles and responsibilities for staff and Members and provides a framework for financial decision-making. Where there are specific statutory powers and duties the Financial Regulations seek to ensure these are duly complied with, as well as reflecting best professional practice and decision-making.

Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

We endeavour to always be open and transparent. We have a forward plan which provides information about all of the decisions that the County Council has scheduled. Formal agendas, reports and minutes for all committee meetings are published on our website which ensures that people know what decisions the County Council is planning to take, and the decisions taken.

Overview and Scrutiny Panels act as a critical friend and hold Cabinet to account for its decisions. The terms of reference for all Overview and Scrutiny Panels are defined in the Constitution.

The Audit and Governance Committee has oversight of internal and external audit matters, the council's arrangements for corporate governance and risk management and any other arrangements for the maintenance of probity.

Each year we publish information on our website outlining how we spend the County Council's budget

Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit. The County Council's internal audit service is provided by Warwickshire County Council whose Internal Audit and Insurance Manager is designated as the Head of Internal Audit and has regular formal meetings with the directors and Director of Finance. Following last year's self-assessment against the PSIAS, an External Quality Assessment of the Internal Audit shared service was completed in February 2018 resulting in positive feedback on the quality of internal audit provided to its clients.

Political structure

The County Council has adopted a Leader and Cabinet executive governance model. The executive consists of the Leader of the County Council and other appointed councillors and is described as the Cabinet. The Cabinet is responsible for most day to day County Council decisions. Cabinet makes decisions in line with the overall policies, priorities and budget set by the County Council. Political decisions on executive functions are generally taken by the Cabinet collectively. No individual members of the Cabinet have (as yet) standing general delegated powers to make formal decisions within their portfolio on behalf of the Cabinet, but an increasing number are being given specific delegated powers by the leader or Cabinet on particular topics. Cabinet also considers and responds to reports and recommendations from the Overview and Scrutiny Performance Board.

Cabinet members have specific areas of responsibility:

- Finance;
- Environment;

- Communities;
- Children and Families;
- Education and Skills
- Economy and Infrastructure;
- Adult Social Care;
- Health and Well-being;
- Highways;
- Transformation and Commissioning

The full Council comprises all elected members and is responsible for agreeing the overall Policy Framework for all services, including the County Council budget. The Council also elects the Leader of the County Council and establishes the other (non-executive) committees and panels of the Council. The Chief Executive, Head of Legal & Democratic Services and the Director of Finance can also submit reports to the full Council.

The Overview and Scrutiny Performance Board is made up of eight Councillors who are not on the Cabinet, plus two Church Representatives and two Parent Governor Representative (for Education matters). Its main role is to assist in policy development, scrutinise the work of the County Council and agree the scrutiny programme for endorsement by full Council. The Board will commission scrutiny through itself, the Scrutiny Panels or time-limited Scrutiny Task Groups.

The Audit and Governance Committee supports effective corporate governance and gives assurance to the County Council and the public on financial and performance issues, risk management and other relevant controls. The Audit and Governance Committee considers and approves the annual statement of accounts and the annual governance statement on behalf of the County Council,

considers the audit plans of both internal and external auditors and comments on their reports.

Members are covered by a Code of Conduct that sets out the rules governing their behaviour. The Code covers areas of individual behaviour, disclosure of interests and withdrawal from meetings where Members have relevant interests. The Standards & Ethics Committee promotes and maintains high standards of conduct by Members, and can adjudicate on relevant complaints. Members register their Disclosable Pecuniary Interests and all Declarations of Interest are recorded.



3. Review of Effectiveness

The effectiveness of the governance framework is informed by assurances provided by Directors and the Director of Finance within the County Council who have responsibility for the development and maintenance of the internal control environment, the comments made

by the external auditors and other review agencies and inspectorates and also the work of the internal auditors. This process is delivered as part of the Corporate Risk Management Strategy.

Each directorate has a risk register which records major risks and assesses the potential impact of those risks. Registers are reviewed and updated during the year to reflect changes in risk. Operational controls are used on a day-to-day basis to control the delivery of services, none of which disclosed any significant weaknesses in control during the year.

Statutory duties placed upon the Monitoring Officer and the Director of Finance require them to draw to Members' attention improper practices or financial imprudence. The Audit and Governance Committee receive reports on those audits that result in a limited opinion. In 2017/18 two audits, Direct Payments (Adults) and Accounts Payable, were given limited assurance and it is anticipated that three further reports (Bank Reconciliation, Financial Systems Access Control and Accounts Receivable) will also be issued as limited reports. In addition during 2017/8 the Committee received reports on three limited opinion audits, (Malvern Link & Foregate Street Station, Bromsgrove Rail and Cash Handling at Adult Social Care Establishments), relating to audits undertaken in 2016/7 but which were not finalised until 2017/8. Actions are being taken to address weaknesses identified and implementation of new financial systems has been identified as a significant governance issue in both 2016/7 and 2017/8.

The review of governance, risk and control arrangements by the internal audit section is continuous. The implementation of new financial and HR payroll systems has caused some issues with financial monitoring, particularly during the first quarter of the year, however regular budget monitoring reports have been presented during the year and have confirmed that expenditure is within the County Council's cash limits.

The County Council has contractual arrangements to govern its relationship with the majority of the organisations with which it deals.

These arrangements are reviewed and managed by contract managers and directorate management teams.

4. Significant Governance Issues

Issues identified as a result of our review process are detailed below, including an update on progress for issues raised in 2016/17.

Update on progress for issues raised in 2016/17:

1) Sustainable Improvement in Children's Services

A Service Improvement Plan was put in place in early 2017 and has been regularly monitored and reviewed since then. Progress has been recognised in the series of Ofsted monitoring visits that took place during the year. The plan has been reviewed and updated for 2018 with a set of focused work programs to support it. Whilst this remains a risk (see following section), there is now agreement to establish an Alternative Delivery Model (ADM) from April 2019.

This remains a governance issue for 2018/19.

2) Home to School Transport

Work took place to review the reporting and monitoring of activity information to ensure that it was as robust as possible. As a result of this work the level of financial risk was reduced. This will be kept under active review to ensure that the position is maintained.

This no longer remains a governance issue as the level of risk has reduced.

3) Migration of Human Resources and Finance Systems

There were a number of issues with the migration to the new HR and Finance systems. Recovery plans were put in place and the position improved significantly during the course of the year. An independent review was carried out by The Society of IT

Managers (SOCITIM) who made several recommendations. There remain some residual issues which are impacting on business of the County Council and which will be worked through.

This therefore remains a governance issue for 2018/19.

4) Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium Term Financial Plan

The County Council has achieved a balanced budget for 2017/18. As is often the case not all planned savings have been achieved. Some alternative savings have been found and use has been made of reserves. The County Council's budget planning process for 2018/19 has involved review and challenge of continuing planned savings and has set a balanced budget.

Given the scale of austerity facing local government this remains a governance issue going into 2018/19.

Whilst these four areas have not impacted on the County Council's overall control environment in 2017/18, further development continues to ensure the County Council is able to strengthen the effectiveness of its control environment in these areas.

2017/18 issues flowing into 2018/19 identified as a result of our review process:

The County Council seeks to continuously enhance its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives.

The review of effectiveness has informed identification of the following key challenges, along with the actions taken / proposed to take to detail with these issues:

1. Sustainable improvement in Children's Services.

As noted in the 2016/17 AGS the response to the statutory improvement notice in Children's Services remains live. An improvement plan and plans to establish an alternative delivery model are well underway with regular programme monitoring and independent checking. It is envisaged that this will thus remain a key risk for the County Council to address in 2018/19, although at this stage response is being well managed and mitigations are in place. As is being seen in most councils across the country, demand pressures within children's social care continue to be a risk for the County Council due to the rise in numbers of children looked after and the complexity of need within the looked after children population.

Children's Services will also be responding to the outcomes of the 2017/18 Special Educational Needs and Disabilities (SEND) inspection.

2. Migration of Human Resources and Finance System.

Implementation of the Independent review actions recommended by SOCITM are well progressed. Whilst 2017/18 saw responses to immediate issues following Go Live of the General Ledger system (E5) and HR system (iTrent), the longer term issues are being addressed. The County Council is now in a period of improvement and transformation with its partner (Liberata), and progress is being monitored regularly by the County Council's Audit and Governance Committee.

3. Ensuring delivery of the County Council's vision and corporate objectives, in line with the Medium Term Financial Plan.

The County Council has set a balanced budget for 2018/19 as well as an indicative longer term financial plan. However, at this time there is considerable uncertainty over the funding for local government. It is expected that over the summer of 2018 there will be further clarity and the County Council will need to respond accordingly. As such this potential risk needs continual review and councillors will be kept abreast of progress in delivering the 2018/19 budget and the funding position for future years through

Cabinet monitoring reports in 2018/19. In addition, following a review by Overview and Scrutiny of a CIPFA resilience review officers will be working closely with councillors to ensure greater engagement and levels of debate in the budget setting process. In addition to this the County Council's maintained school's balances have again reduced and with the changes in funding formula this is an area of potential risk that requires further review.

4. Adult Social care - Operational Pressures

The local health and social care economy is under considerable demand pressure. As well as financial implications this is seen in particular pressure points such as delayed transfers of care from hospitals and lack of capacity in specific sectors of the care market. The County Council is actively working with its partners in the Health and Independent Sectors.

5. Staff capacity, recruitment and retention: The County Council has undergone a significant change in its Senior Leadership Team over the last six months. There will inevitably be a period of settling and challenge which may lead to further changes. The risk of staff retention and workforce planning thus needs to be considered and mitigated as appropriate during the next 12 to 18 months as part of any change programme to ensure the right capacity is maintained and staff development is maximised. Staff capacity may be impacted by national health issues such as Human Pandemic Flu. Epidemiological modelling suggests that an outbreak is possible at any time and its impact is likely to be severe.

5. Certification

To the best of our knowledge, the governance arrangements, as defined above have been effective. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review and through the County Council's Corporate Risk Management Group.

Paul Robinson
Chief Executive

Date:

Simon Geraghty
Leader of the County Council

.....

.....

Date:

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE
26 JULY 2018**ANNUAL STATUTORY FINANCIAL STATEMENTS FOR THE**
YEAR ENDED 31 MARCH 2018

Recommendation

- 1. The Chief Financial Officer recommends that the Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2018, be approved.**

Background

2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015, and the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Council and the Pension Fund, reflecting the Council's outturn position and the Pension Fund net asset position.
3. This report sets out the key issues arising from the external audit of the Statutory Accounts and the process for their publication. The external audit was carried out by the Council's External Auditor, Grant Thornton UK LLP, who has provided audit reports for the County Council and Pension Fund accounts. Grant Thornton are required to report on any amendments from the draft Statement of Accounts as part of the submission of the final version to the Audit and Governance Committee. The full report arising from this audit is included in the ISA 260 report to those charged with governance, which is included in the committee papers, and should be read in conjunction with this document.

Key issues arising

4. The draft accounts were signed by the Chief Financial Officer and published on the Council's external website on 18 May 2018, ahead of the statutory deadline of 30 June 2018. Grant Thornton commenced their audit on 29 May 2018. The draft accounts were taken to Cabinet on 14 June 2018. The Statutory Deadline for audited accounts publication is 31 July 2018, which has moved forward from the previous deadline of 30 September.
5. The financial position reported in the Council's Statutory Accounts for 2017/18 was a small surplus of £0.188 million against the net budget of £324 million, with an accounting surplus, which includes adjustments of £50.5 million, for pension's actuarial costs, capital costs and other financial adjustments, of £64.4 million. The County Council's General Fund reserve balance has increased by £0.2 million to £12.2 million, whilst there has been a decrease of £14.1 million on available

earmarked reserves taking their balance at 31 March 2018 to £84.4 million.

6. The value of the Pension Fund's net assets increased by £220.1 million from £2,480.9 million at 31 March 2017 to £2,701.0 million at 31 March 2018. During the year a surplus resulted on the Pension Fund accounts totalling £114.8 million, an increase of £80.4 million from a surplus of £34.4 million in the previous year. This was mainly due to some Fund contributors paying their 3 year contributions fully in 2017/18, up to the next valuation in 2019, to the value of £71.2 million.

7. The external audit has identified a number of corrections which have been agreed and completed; none of these are material or require any changes to the key statements. We have also identified improvements to the process and working papers which we will implement as part of our ongoing Statutory Accounts process.

8. There have been improvements in the quality of the working papers in general, although we have experienced some issues with how we report from the e5 financial system and the quality of some source documentation. Areas for improvement have been identified, along with related training and development opportunities, and we will work to ensure that the quality of working papers continues to improve. A number of areas which caused concern in the 2016/17 accounts process have shown considerable improvement this year, specifically the Annual Governance Statement production and termination payments. These processes have a wider understanding of what is required and engagement with staff outside of finance.

9. The Value for Money assessment has concluded that the Council has proper arrangements in all significant areas, leading to a qualified "except for" conclusion in our arrangements securing economy, efficiency and effectiveness by the external auditors, with the Children's Ofsted inspection assessment and our commissioning processes as the "except for" items. Recommendations for improvement have been made by the external auditors and this will be considered alongside existing plans.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: MHudson@worcestershire.gov.uk

Supporting Information

- Annual Financial Report and Statement of Accounts – separate document

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.

AUDIT AND GOVERNANCE COMMITTEE
26 JULY 2018**HR/FINANCE SYSTEMS IMPLEMENTATION - UPDATE****Recommendation**

1. The Head of HR and OD and the Chief Financial Officer recommend that:
 - a) The report be noted
 - b) The Audit and Governance Committee receive a further update at its next Committee on the improvement programme.

Executive Summary/Next Steps

2. This is a further update to the Audit and Governance Committee relating to the actions and progress around the implementation and management of the HR and Finance systems, and the Liberata contract.
3. This report gives more detail on the issues that were highlighted and the key performance statistics for the services.
4. The report identifies that there were a number of issues of concern on implementation that have been worked through. Those actions sought to correct a relatively small level of errors compared to the total processing population size. All errors affecting payments to staff and suppliers or in relation to income collection were corrected promptly, and remedial actions ensured the small number affected were compensated where appropriate.
5. The actions over the last 14 months have been around learning the lessons of implementation and on strengthening controls, as well as reporting.
6. The last few months and the coming 12 months are focused on improvement activity and contract compliance to secure greater efficiencies. For example, implementing a new budget reporting tool (collaborative planning) and a review of the key performance indicators.

Background

7. The contract with Liberata for the Human Resources (HR) and Finance Transactional 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.
8. 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. The new systems went live on 11 April 2017. On go live a number of errors were identified in payments and income collection.

9. The issues arising are set out in Appendix 1, and included a small number (compared to the total population size of payroll and accounts payable payments) of payroll and supplier payment errors. Regardless of scale it is recognised that there was a reputational impact and there was confusion over the scale and who was or was not affected. This report seeks to clarify that position in data contained in Appendix 1.

10. In addition, an independent review (funded by WCC) was commissioned from the Society of IT Managers (SOCITM) which identified lessons learned and issues that needed to be addressed moving forward and these were reported to the last meeting.

11. A key learning from this implementation is that if any future similar issues arise at the time of system implementation clearer communication to councillors, staff, suppliers and clients is needed at the time the issues are raised. This has been fed into current system implementation programmes, including the replacement for the Framework social care system as well as all other recommendations from SOCITM.

12. The issues were actively managed by the Transformation Board reporting into the Contract Management Board and responses were made to correct all errors promptly, and where appropriate credits / out of pocket expenses were made.

13. Following an update to the Audit and Governance Committee on 16 March 2018, a further report was requested to include:

- a) Summary details including categorisation of any under/overpayments since go live;
- b) The number and type of wider issues (including complaints) raised by Council and School employees to understand the proportionality of the issues experienced; and
- c) A copy of the report provided to the external auditor.

14. The following paragraphs contain a summary of the issues, and more detailed information relating to a) and b) is included at Appendix 1; and the report provided to external audit is attached at Appendix 2.

Summary Information

- Go live issues

15. A detailed analysis is contained at Appendices 1 and 2 of this report. On go live there were a number of small issues relating to payments and income. Whilst these were small proportionately it is recognised that the lack of clear data at the time due to resources diverted to correct issues, caused a perception of greater issues. It is also recognised that it has taken time to clarify those positions as a result

of that delay. This paper seeks to clarify that position as requested by the Audit and Governance Committee.

16. The key issues from April 2017:

- 107 payslips were processed in April 2017 (0.1% of the first months total payslips) resulting in an underpayment to staff (39 council and 68 maintained school employees). All underpayments were corrected within a maximum of 5 days of the underpayment being highlighted.
- Since April 2017 (not including April 2017 as detailed above) there have been on average 38 underpayments a month, largely arising due to employee or manager omissions in data submitted. Whilst there are no comparative statistics this is 0.3% of monthly payroll payslips processed and is not uncommon or out of the norm.
- £0.9 million of supplier payments were paid incorrectly arising from errors on the first payment run. 100% of this has been recovered. Around 130 payments for foster care were extracted from the original payment run and paid separately on a 'same day' transfer (to ensure they were still paid when intended); all further suppliers were paid the following working day. This error rate is high compared to the norm, but is relating to one pay run (the first), subsequent pay runs have not showed significant issues, and payments are being made on time. The Council's finance staff telephoned suppliers affected and apologised.

17. Since that first month the Council has worked with Liberata to correct issues, and contract monitoring has identified large levels of key performance indicator (KPI) measures being met. Further details are set out at Appendix 1.

Lessons learnt and recovery actions / contract management

18. A SOCITM report identified a wide range of lessons to be learnt from the E5 and ITrent go live. The lessons have been fed into the organisation and evaluation assessed in relation to the Council's current replacement of its Social Care data system (Frameworki).

19. The Council has also held regular contract management meetings with Liberata and managed the contract according to the KPIs. The Council has also sought to realign and increase the capacity of its staff to cover key reconciliation and control positions not in place before or just after go live. As a result reconciliations and control account clearance are now up to date. The data for the statement of accounts was produced on time, and further comment on that is likely on the first agenda items of the Committee considering this report.

- Improvement

20. The Council and Liberata made concerted efforts to respond to the issues that arose during the early weeks of the implementation. Whilst a recovery plan was in place, there is now the focus to move from recovery to improvement. This improvement has included improved communication with schools and wider users of the system.

21. An Improvement Board, including key stakeholders from both Liberata and the Council meets regularly to monitor the actions to ensure progress. The Board meetings include Head of Commercial, 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.

22. In addition there are monthly Contract monitoring meetings where key performance indicators are reviewed. The indicators for 2018/19 have been reviewed and these are robustly monitored by Council officers. Should there be any specific issues, then ad hoc meetings take place.

23. In relation to Schools recent action has been taken to provide capacity within Finance for one of the Finance Managers to concentrate full time on school and Liberata contract issues and management. This project will include recommending further improvements.

24. Discussions are also progressing with Liberata regarding changes to service agreements to strengthen further KPIs. This is not uncommon 12 months into a contract / new system. As part of that we also have other improvement plans such as Procurement controls and Collaborative Planning which are aimed at improving reporting and efficiencies in payments.

25. Collaborative Planning (CP) is a module of the finance system that provides a tool for budget managers to:

- Receive management Information
- Complete budget monitoring and forecasting (both capital and revenue)
- Prepare budgets

26. CP will facilitate ownership of budgets by budget owners and enables budget owners to monitor budgets and prepare forecasts for approval and consolidation. It is a key tool to automate and integrate the production of forecasts and budgets empowering budget managers in the process and enabling the finance team to proactively work with budget holders across the organisation to manage spend and add value, rather than spending time on data input and spreadsheet consolidation.

27. The module was not implemented in the initial implementation phase of Mercury and following a review in October 2017 a revised plan for development, testing and implementation was developed. This plan aimed to address the lessons learned from the Mercury implementation and the recommendations of the SOCITM report. In particular the testing plan included meaningful involvement of users across the organisation and a pilot phase for use by finance.

28. CP is a key development for 2018/19 and is currently being rolled out in a phased way across the Council and schools.

29. Significant improvement has also been seen in relation to the preparation of the Council's statement of accounts for 2017/18 (discussed elsewhere on the same agenda as this report). At the last meeting the Committee was advised that the closing of the accounts to an earlier timescale, with a new financial system, was particularly challenging. County Council finance staff and Liberata staff have worked

particularly closely, meeting daily as the year end approached to ensure that reports were produced on time. The draft accounts were produced to the deadline and the external audit of the final accounts is subject to a separate item on the agenda.

30. There is still a lot of work to do to improve services, both on the client and contractor / system side. A Finance Improvement Programme is being pulled together to roll out further improvements in controls, training and processes. It is recommended that the Committee is regularly kept abreast of these developments and improvements both in response to the issues raised in this paper and the Internal Audit Annual Report also discussed on the same Committee Agenda.

Summary

31. There were many lessons to be learned from the implementation of the new HR/Finance system. The actual go live issues were disappointing but quickly managed, albeit with significant divergence of resources on all sides.

32. Lessons are to be learnt regarding ensuring if such events were to occur again further capacity is needed to explain and provide information to councillors and others to provide assurance and openness of the issues and how they are being resolved. Learning points from the independent review were reported to the last Committee meeting and there are key improvement activities taking place to develop approaches to future commissioning.

33. 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

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michel Hudson Chief Financial Officer

Tel: 01905 845560

E mail: mhudson@worcestershire.gov.uk

Andrew Spice Director Commercial and Commissioning

Tel: 01905 844254

E mail: aspice@worcestershire.gov.uk

Richard Taylor Interim Head of HR and OD

Tel: 01905 846021

Email: rtaylor@worcestershire.gov.uk

Sue Alexander Head of Financial Management (Adults Children Families and Communities)

Tel: 01905 846942
salexander@worcestershire.gov.uk

Supporting Information

Appendix 1 – Details of issues arising at Go Live

Appendix 2 - Report Provided to External Audit

Background Papers

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

Agenda papers and Minutes of the Audit and Governance Committee on 16 March 2018

Details of issues arising at Go Live

- HR/Payroll

Since April 2017 there has been a total of 121,285 payslips (i.e. salary payments to Council and Maintained School employees) issued which is an average of 10,107 per month.

This data includes all County Council staff and maintained schools but does not include academies.

The table below indicates that 99.5% of salary payments have been made correctly.

Salary Payments April 2017 – March 2018	Number	Percentage
Staff paid correctly	120,655	99.5%
Underpayments	530	0.4%
Overpayments	100	0.1%
TOTAL	121,285	

Of the 530 Underpayments 100% were corrected within a maximum of 5 days. Any out of pocket expenses arising were paid were appropriate and funded by Liberata.

o **Underpayments:**

Of the 530 (or 0.4% of the total payslips issued) that gave rise to underpayments between April 2017 and March 2018. The total of the 530 underpayments was £285,696. Of the 530 underpayments, 107 (0.1% of the month's processed payslips) were in April 2017 at go live. There were a further 40 related to academies, in total thus 147 as reported to the last Committee. As such the average underpayments since has been around 35 per month – that is 0.3% of the monthly payslips processed.

In the first months under payments these related to changes in pay / expenses. All individuals who were employed prior to Go Live received basic salary. The underpayments related to changes in grade, expenses, etc...

There are a number of reasons why a salary payment can be processed incorrectly, including missing deadlines for submission of claims to the payroll by managers/bursars; or not having sufficient information to enable a salary payment to be made, such as the payee's bank details. An analysis of the reasons for the underpayments is shown in the following table; this identifies that actually of the 530 underpayments 50.4% relate to manager and user error. This highlights the need for improvements in training:

Underpayments April 2017 – March 2018	Number	Percentage
System/Liberata issue	263	49.6%
Manager issue (e.g. entering claims incorrectly/late notification/missing payroll deadline)	210	39.6%
User issue (e.g. not sending in bank details / missed payroll deadline for submission of claims)	57	10.8%
TOTAL	530	

○ **Overpayments:**

In total, out of the 121,285 payslips there have been 100 overpayments between April 2017 and March 2018, which amounts to 0.1% of the total payslips issued. This amounts to an average of eight overpayments per month. When there is an overpayment of salary, there are a number of options which are discussed and agreed with the member of staff to ensure any overpayment is reclaimed.

As with underpayments, there are potentially a number of reasons why a salary payment is incorrect. An analysis of the reasons for the overpayments is shown in the table below again this points to the need for training.

Overpayments April 2017 – March 2018	Number	Percentage
System/Liberata issue	64	64%
Manager issue (e.g. end date not provided when staff member leaves)	24	24%
User issue(e.g. incorrect claims)	12	12%
TOTAL	100	

- **Schools Issues**

There were a number of issues reported by schools during implementation. Liberata attended a number of schools forum meetings in 2017 where an update of the progress was made. A system was put in place to escalate all concerns through the Council where this had not been satisfactorily resolved by Liberata. The escalation process has also been used by academies. In the past twelve months there have been 143 escalations, of which 52 relate to academies with the remaining 90 maintained schools and one from a supplier. The issues related to general issues with implementation of the systems to budget monitoring questions and specific payroll queries.

- **Finance System**

As part of the contract with Liberata, the key finance performance indicators include the following:

- **Supplier Payments** - Ensure supplier payments are paid accurately and on time
- **Income Received** - Ensure that income received is posted onto the Council accounts quickly
- **Customer Invoices** - Ensure customer invoices are paid within 90 days

Performance on these key areas is reported to the Contract monitoring board on a monthly basis and where appropriate contract provisions are invoked.

- **Accounts Payable**

The first supplier payment run in the new financial system resulted in an incorrect batch of payments. A check of the first supplier payment run identified the potential for a significant number of suppliers to be paid incorrectly, and considerable manual intervention had to take place. The County Council recalled some payments; however £0.9 million was paid to 39 incorrect suppliers. More details are set out at Appendix 2 in the detailed report to our external auditors in February 2018 as part of the preparation for the 2017/18 Accounts audit.

As a result of missed payments 130 (£0.5 million) of urgent payments were made to ensure certain suppliers were paid quickly. This did include child minders and foster parents, and everyone affected was called and made aware.

There were some payments that failed to be recalled through the BACS / banking system. Depending on the particular supplier, the County Council arranged for repayment by either reducing amounts off the next feeder payment run, or raising an invoice. In all instances contact was made by telephone immediately, with some calls being made before the payment had cleared the banking system. Of the incorrect payments 100% has been recovered and the Council has incurred no financial loss.

There was a root cause report produced by Liberata as to what went wrong on the first payment run and mitigation measures were put in place to ensure that this did not happen in future.

Since the first month of operation, supplier payments paid accurately and on time have been consistently high, with an average of 98.9% of suppliers paid accurately and on time. There could be a number of reasons why a supplier payment has not been on time, including late authorisation of payment, and purchase order being received late.

Supplier April 2017 – March 2018	Number	Percentage
Paid correctly and on time	289,971	98.4%
Not paid correctly and/or on time	4,699	1.6%
TOTAL	294,670	

○ **Accounts Receivable**

Income received and posted to the Council's accounts is important to ensure that the accounting records are accurate and that the Council receives income in a timely manner. It also ensures the Council does not incorrectly chase individuals or suppliers. The target for 2017/18 was that 80% of the Council's income is posted to the Council accounts within 2 days. Performance information is shown below, indicating that performance has been 88.5%, above the target of 80%.

Income Payments June 2017 – March 2018	Number	Percentage
Posted within 2 days to Council accounts	24,615	88.5%
Posted within 10 days to Council accounts	2,612	9.4%
Posted in more than 10 days	589	2.1%
TOTAL	27,816	

Performance on ensuring that customer invoices have been paid within 90 days of receipt of invoice has been within the target of 94%. It is important to ensure that the debt management processes are effective and that income due to the Council is collected as promptly as possible. The average for the year is 98%.

Customer Invoices paid April 2017 – March 2018	£m	Percentage
Paid within 90 days	902,264	98%
Not paid within 90 days	18,392	2%
TOTAL	920,656	

Report Provided to External Audit

External Audit Briefing Note

Liberata – first supplier payment in E5 – 11 April 2017

Issue

The first payment run in E5 was made c. 7pm on 11 April 2017 and totalled £12.4m, of this only £5m (c.390 suppliers) was scheduled to be paid based in the supplier payment terms held in E5.

The BACS payment cycle for this payment was:

Day 1 - Tuesday 11 April – Input

Day 2 - Wednesday 12 April – BACS processing day

Day 3 – Thursday 13 April – Bank Transfer

Note: Friday 14 April 2017 and Monday 17 April 2017 were Good Friday and Easter Monday bank holidays.

At around 10am on 12 April WCC staff were checking the accounting postings to revenue cost centres generated by the £5m payment file and found that whilst some payments were correct, some were not.

Following a quick examination of the data, it was concluded that there was the potential for a significant number of £5m payment to be incorrect and/or paid to the wrong supplier. It could not be established in the time available the exact potential impact of the issue, just that it could have affected all payments.

A decision was therefore made for the entire £5m payment run to be recalled through the BACS recall process on 12 April 2017.

It was found that a small part of Liberata's system functionality to reject suppliers without an exact match to the original payment request was not turned on, resulting in some payments being made to the wrong supplier.

Specifically, where a supplier record was missing, the payment was made to the next supplier listed on the file instead of rejecting the payment.

Liberata then corrected this functionality and the payment run was then resubmitted. The actual bank transfer day for the resubmitted file was Tuesday 18 April 2017 (5 calendar days or 1 working day later than the original payment date). The County Council took additional action to pay the most urgent suppliers on a 1 day Faster Payment process – facilitated by Liberata.

There was insufficient time for all the BACS recalls requested on 12 April 2017 to be successful. Consequently there were £0.9m BACS recall failures for which the County Council needed to take action to get the money back.

Later analysis of the £5m payment identified that £1.9m (c.95 payments) would have been made in error – and included £875k where the amount was an overpayments (83 supplies) and £425k where the amount was an underpayment (12 suppliers), reinforcing that the decision to recall the entire £5m given the information available was justified.

Root Cause

Confirmation of the root cause of the issue is contained with the email correspondence from Liberata as attached below.

Original draft Root Cause document from Liberata:



E5 Feeder payments 110417 - Original Draft Document from Liberata.msg

Returned draft Root Cause document back to Liberata with WCC amendments and comment:



E5 Feeder payments 110417-dcb 2017_05_17 - WCC update to root cause report.msg

Confirmation of amendments from Liberata:



RE E5 Feeder payments 110417-dcb 2017_05_17 - Liberata accepting all points query feedback loop.msg

Attachment: Email and document: Root Cause Communication from Liberata

There was one except to the diagram that Liberata were unable or not prepared to do – which was to establish an automatic information feedback loop to feeder owners to enable them to check for any issues. This functionality was developed and implemented by WCC staff. Other than this issue the attachment confirms Liberata's formal acceptance of the root cause of the issue.

Mitigation

From the second payment run onwards, to prove that the payment made through Liberata's payments system was correct, reconciliation was undertaken by Liberata and sent to WCC for manual spot checking to SAP vendor records before payments were made.

Attachment – Examples of this work – DATA REDACTED DUE TO SENSITIVITY.

Note that a verbal explanation of these technical working papers will be provided if requested to explain the manual testing undertaken.

This continued for around a month – **during which and to date there have been no further errors identified as a result of this issue.**

The manual check process was stopped when an automated check programme was implemented. This automated process emailed the feeder system owners with any mismatches for investigation – an example would be where a new supplier is used in a feeder system but not yet set up in E5

Attachment – Example of Automated process. Further examples can be provided upon request – DATA REDACTED DUE TO SENSITIVITY

Attachment – List of feeder owners who receive automated feedback – DATA REDACTED DUE TO SENSITIVITY

Impact

The County Council had to make a number of urgent payments to ensure certain suppliers were paid quickly. (e.g. child minders and foster parents).

£0.9m payments failed to be recalled through the BACS / banking system. Depending on the particular supplier, the County Council arranged for repayment by either reducing amounts off the next feeder payment run, or raising an invoice. In all instances contact was made by telephone immediately, with some calls being made before the payment had cleared the banking system.

The amount still outstanding at 14/2/18 is £6k (6 suppliers) and work is in hand to ensure full repayment.

February 2018
Mark Sanders

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

INTERNAL AUDIT – EXTERNAL QUALITY ASSESSMENT

Recommendations

- 1. The Chief Financial Officer recommends that the outcome of the external quality assessment of the Council's internal audit service is noted.**

Purpose of Report

2. This report presents the outcome of an External Quality Assessment of the Council's internal audit service.

Background

3. Internal audit within the public sector is governed by the Public Sector Internal Audit standards (PSAIS) which have been in place since 2013 but were significantly updated from April 2017. Compliance with the standards is mandatory for all principal local authorities.
4. PSAIS aims to promote continued improvement in the professionalism, quality and effectiveness of internal audit services and a key element of this is to require audit services to have a periodic external assessment of compliance with the standards once every five years as part of the internal audit quality management programme.
5. The assessments aim to:
 - Identify what internal audit are doing well
 - Support continuous improvement
 - Emphasise and enhance the standing of internal audit
6. At its meeting in September 2017 the Committee endorsed the arrangements for an EQA of the council's internal audit service during Quarter 4 2017/2018. This report presents the outcome of the assessment.

Approach to the Assessment

7. At its September meeting the Committee also considered a high level self-assessment against the standards which had been supported by an external expert and which showed that the service was well placed for a good outcome. A more detailed self-assessment was subsequently produced and provided to the assessor together with copies of key documents such as the Audit Charter, annual reports,

plans and Audit Manual. This detailed self-assessment covered all aspects of the internal audit service provided to each of our clients.

8. The assessor spent a full week “on-site” during February during which time he interviewed the Chair of the audit committee and chief financial officer of all of our clients, reviewed in detail a number of audits undertaken by the service and scrutinised the self-assessment. During that week and subsequently additional information was requested by the assessor. Initial feedback was subsequently provided at a de-brief meeting after which a report was produced and discussed with the assessor.

9. The final report has recently been received and is attached as an Appendix for consideration by the Committee.

Outcome

10. The Committee will note that the overall picture, from what has been a very rigorous and challenging assessment, is positive with the overall conclusion being that the service complies with the expectations of the Standards and out performs other audit services in local government. Audit reports can now include a statement of conformance with the Standards.

11. The report identifies a number of good practice points where the service can be enhanced even further. These will be considered by the Service and an action plan will be developed.

12. This is an excellent outcome and provides assurance to the Council over the quality of the internal audit service provided.

Supporting Information

- Appendix – External Quality Assessment

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 846942

Email: mhudson@worcestershire.gov.uk

Background Papers

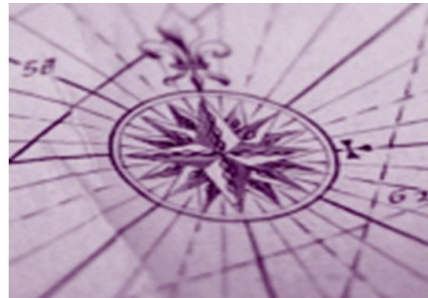
In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:



Page 115

Warwickshire County Council Internal Audit Service

External Quality Assessment February/March 2018



Section 1 – Introduction and purpose of assignment

Section 2 - Executive summary

Section 3 - Conclusion and overall assessment

Section 4 – Summary of good practice identified within EQA

Section 5 - Findings in relation to Resources

Section 6 – Findings in relation to Constitution

Section 7 – Findings in relation to Delivery

Section 8 - Comparison with peer groups

Section 9 – Stakeholder feedback

Section 10 - Performance against key standards

Appendices

Introduction and Purpose of assignment

The Internal Audit service for Stratford District Council, Warwickshire Council, Worcestershire Council, Warwickshire and West Mercia Police, Warwickshire and West Mercia Police and Crime Commissioners is provided by a shared services team under the leadership of Garry Rollason as Internal Audit and Insurance Manager (HoIA).

The team have responded to the introduction of the Public Sector Internal Audit Standards, receiving external advice regarding their standard methodology during 2017 and have as a result increasingly worked to a more consistent approach to delivery of internal audit services since expanding to include Worcestershire. Performance against the standard has been self-assessed on an annual basis and appropriate reports provided to member authority committee meetings.

The purpose of this review is to provide an external and independent quality review in accordance with standard 1312. We see this as not merely a compliance exercise and have also highlighted aspects of the service that we regard as best practice as well as summarised our thoughts as to where further development can be made to enhance the value of the service being provided.

The team of 18 FTE staff has significant experience, with a range of relevant qualifications and it has been recognised that there is a need to ensure a consistent approach to delivering assurance, as this is beneficial regarding communication with clients, working practices, reporting and therefore associated supervision and training needs. At a corporate level, this is established through the presence of an Internal Audit Charter, which effectively defines the standards to which the service will carry out its work and is supported by use of the Galileo software which introduces accepted processes and templates which the internal audit team utilises. The team adopts its own format for communication regarding the Terms of Reference for assignments and Internal Audit Reports.

The report reflects our opinion regarding the services currently provided as measured against the Public Sector Internal Audit Standards (PSIAS), which we trust will be of benefit to individual staff, the team and the local authorities serviced by the Internal Audit Service. Our observations and recommendations have been summarised within categories relating to the Resources, Constitution, and Delivery and the team graded as being at one of three stages within each category, grades are related to our opinion as to whether the service is developing, established or excelling.

The internal audit service has successfully responded to the expansion of the internal audit team and the introduction of new clients which inevitably led to a period of stabilisation in which the team moved towards a common approach that is now consistent with the PSIAS.

The significant change within the PSIAS reflects the focus on a requirement to implement a risk based internal audit approach to all aspects of internal audit work – significantly in relation to planning at a strategic and assignment level as well as in reporting. The service does adopt a risk based approach through the development of its own risk assessment at a strategic planning level, at an assignment level through recognition of risk register content and in testing schedules, although further development would be beneficial both in terms of recognising inherent risk and in terms of reflecting wider sector risk experience of the internal audit team within audit planning documents and terms of reference.

The client authorities have risk management strategies and associated frameworks; as a consequence, it would be beneficial for internal audit to further increase the alignment of its processes with the risk appetite of each client as this would promote effective communication, structure audit work on 'what really matters' and use risk as the basis for reporting. In this respect, we have recommended that future opinions and recommendations relate directly to established risk definitions within each client.

Further development of clients' risk management approaches regarding the inherent risks being faced and upon those controls in place and assurances available would allow internal audit to more clearly define risks and key mitigating controls and therefore provide a robust basis for communication with managers and with other assurance providers.

The internal audit service has experienced periods of staff vacancies during 2017 which has hindered development however this position has been stabilised and as a result services are anticipated to benefit from a period of stability in which staff will remain consistent from April 2018. A further internal audit management position has been included within the new structures, at Deputy level, which will help in moving forward with a consistent quality of service. The HoIA makes use of external support, when appropriate, to ensure delivery of internal audit assurance needs, particularly in relation to IT audit.

A robust internal audit standard has therefore been maintained and delivered using an experienced team. This has allowed the service to demonstrate a level of compliance with the PSIAS which compares favourably against its peers.

Nevertheless, with increasing pressures on client budgets, significant change to service delivery and as a result increasing risk; there is a need for the service to continue to enhance its delivery through greater awareness of the relevance of risk to both the clients and its own approach, in order to ensure that it focuses on the most appropriate areas and as a result demonstrates that it provides a service that effectively contributes towards the achievement of each client's objectives.

- The internal audit provision provided to Stratford on Avon District Council, Warwickshire County Council, Worcestershire County Council, Warwickshire and West Mercia Police, Warwickshire and West Mercia Police and Crime Commissioners by the Internal Audit Service at Warwickshire County Council complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector.
- The service receives positive feedback from the Audit Committee and Executive Management although there is recognition that restructuring of the team have caused problems with performance at a time when the service was also engaged in expanding its client base and retendering its IT audit framework contract.
- There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the clients and assist in improving its profile as well as the subsequent feedback that is received:
 - the service should continue to move to an approach that reflects full recognition of the risk factors recognised by each client both at a strategic planning level and when planning and conducting assignments, although this is to an extent dependent on further embedding risk management by clients.
 - the annual internal audit plan should be compiled on the basis of each clients risk register and documented discussions with Chief Officers,
 - the use of risk in relation to grading of recommendations and overall opinions should be reviewed to better reflect the risk appetite of each client and should reflect identification and escalation of recommendations graded as high that match risk definitions graded as 'red' or 'amber' within risk management systems.
 - the Annual Report of the HoIA should be enhanced to reflect the Internal Audit Charter and the PSIAS with assurance being related to awareness of the significant risks being faced by each client.
- The further development of risk management systems within each client to reflect an Assurance Framework would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort can be co-ordinated in order to support the Governance Statements process. It is envisaged that such progress will also enable the members of Audit Committees to become better engaged in internal audit planning as well as in terms of analysing recommendations and opinions contained in internal audit reports.
- Some revisions to the internal audit processes may be beneficial in terms of improving efficiency and transparency of the assurance being provided.

Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with the Audit Committees	The Charter is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1312	The service has conducted annual self assessment exercises resulting in an annual development plan which is reported in the HoIA annual report.	Demonstrates a process and commitment to continuous improvement which is considered by Audit Committees
2020	Active engagement at officer and member level	Represents the establishment of a good understanding of key issues through interaction with positive feedback from officers.
2030	The service routinely assesses its training needs and discusses requirements with the Head of Law and Governance.	This represents a firm basis for the consideration of recruitment and training needs as well as the use of external support
2030	Detailed job descriptions are available against which appraisal and development meetings take place routinely.	Provides an established basis for recruitment and training within a scheme that is accredited by CIPFA.
2040	A detailed internal audit manual is in place.	Provides for a consistent methodology, within the service this is delivered through use of Galileo software and a series of templates within which a high standard of cross referencing between documents is achieved.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained following conduct of an audit.	Demonstration of a consistent approach for communication which is well received by management and the Audit Committees
2200/ 2300	The service uses an Engagement Planning Document, Terms of Reference and Risk Matrix template which are reviewed by a supervisor at an appropriate time.	Provides a basis for a methodical assignment in consultation with clients.

1	RESOURCES		Excelling – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	CONSTITUTION		Established – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
3	DELIVERY		Established – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.

Summary stakeholder feedback (Chairs)

Question	A	B	C	D
Purpose	✓	✓	✓	✓
Understanding of Council requirements	✓	✓	✓	✓
Adequate assurance provided	✓	✓	✓	✓
Independence with contact outside of meetings	✓	✓	✓	✓
Status	✓	✓	✓	✓
Experience, skills and effective communication	✓	✓	✓	✓
Effective performance	✓	✓	✓	✓
Effective planning and priorities	✓	✓	✓	✓
Other relevant observations				

- a) It is anticipated that there are good working relationship with officers within the Council
- b) Embedding risk management as a concept throughout the organisation would help us all to understand assurances required and available
- c) There is still work to do on ensuring everyone understands risk management particularly at an operational level.
- d) Increased knowledge of risks would allow Audit Committee to provide greater input into internal audit plans.
- e) I welcome the pre-meetings with the HoIA before Audit Committees
- f) Contact with the HoIA outside of the Committee process does occur by phone and email
- g) Some training of the Audit Committee regarding PSIAS would be beneficial

Note: ✓ reflects positive feedback with observations above recognising that there are areas where further attention may be beneficial.

Summary stakeholder feedback (Officers)

Question	A	B	C	D	E
Purpose	✓	✓	✓	✓	✓
Understanding of organisations requirements	✓	✓	✓	✓	✓
Adequate assurance provided	✓	✓	✓	✓	✓
Independence with contact outside of meetings	✓	✓	✓	✓	✓
Status	✓	✓	✓	✓	✓
Experience, skills and effective communication	✓	✓	✓	✓	✓
Effective performance	✓	✓	✓	✓	✓
Effective planning and priorities	✓	✓	✓	✓	✓
Other relevant observations					

- a) Good contact with S151/Line Manager on a regular basis
- b) Good working relationship with officers within the Council
- c) Welcome the co-operation provided through advisory work
- d) Need to further embed risk management throughout the Council
- e) Some discussion regarding grading of recommendations
- f) The HoIA has regular contact with departments and Senior Managers and responds to issues raised
- g) Some delays in reporting have been experienced particularly when there were issues with staffing
- h) Would welcome greater benchmarking ability

Note: ✓ reflects positive feedback with observations above recognising that there are areas where further attention may be beneficial.

Compliance with PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Constitution**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**


Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services



- In grading our recommendations, we have considered the wider environment within the clients in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.





Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.




	Issue identified	Recommended action
1	<p>Supervision</p> <p>The service demonstrates effective supervision of the progression of assignments when drafting terms of reference, the risk control matrix, testing and in clearance of draft/final reports.</p> <p>During each assignment staff undertaking fieldwork can discuss progress during 121 sessions or as needed however other than for 121s such supervision is not usually documented.</p>	<p>A record of supervision should be maintained throughout the assignment.</p> <p>This need not be an exhaustive commentary however key points arising from consultation should be recorded, perhaps as notes on the progress summary within Galileo.</p> 











	Issue identified	Recommended action
<p>1</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 127</p>	<p>Internal Audit Planning</p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on assessment devised by internal audit; rather than being able to transparently reflect the wider risk issues within operational areas due to the degree to which risk management is embedded.</p> <p>It is accepted that meetings with key stakeholders assist in defining the plan however notes of meetings reflect the nature of issues discussed and not those existing risks contained in strategic and operational risk registers (whether available or not)</p> <p>There is an identified link between the internal audit plan, content discussed with Management and the Audit Committee and the risk based reasoning for inclusion of the assignment in the audit plan, although this does not take a form that reflects an assurance framework or the consistent adoption of three lines of defence theory. The plan approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which each client relies and in particular what risks exist that match the highest levels of impact as defined in risk management strategies. As clients embark upon and progress Transformation Plans this will become increasingly relevant.</p> <p>In turn this should drive preparation of the terms of reference for each assignment. The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and each client.</p>	<p>a. The audit planning process should increasingly be designed to reflect the assurance needs of the client through transparent alignment with the clients approach to risk management.</p> <p>The formation of a direct link with the client's risk register and the key mitigating controls, supported by documented discussions with Chief Officers and other managers regarding business critical risk would provide an effective risk based basis for future internal audit plans and create increased understanding and ability of members of the Audit Committee to contribute to the assurance agenda.</p> <p>Further embedding of robust risk management within clients would therefore be beneficial regarding all aspects of internal audit planning.</p> <p>b. The internal audit planning process should continue to be developed to identify and document other sources of assurance that are available and upon which the client can place reliance, and which may if available be formally recorded within the annual HoIA report and subsequently the Governance Statement.</p>


Constitution continued

	Issue identified	Recommended action
<p>2</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 128</p>	<p>Audit Manual</p> <p>The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS.</p> <p>The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of each client would be beneficial.</p>	<p>a. The internal audit manual should be updated to reflect greater alignment with the risk management policies of the Council.</p> <p>Consideration should be given to amending the internal audit methodology by:</p> <ul style="list-style-type: none"> - Including an initial focus on what are the managements objectives for the area under review; - Changing the focus of each audit from identifying risk areas to identifying and agreeing with management the specific key risks to which the area under review is exposed. - increasing the focus on identifying, evaluating and testing controls and sources of assurance that demonstrate that residual risk is as stated within the client risk management process 
<p>3</p>	<p>Performance and Development Review (PDR)</p> <p>The annual performance review of the Head of Internal Audit Services is undertaken by the line manager as Head of Law and Governance at Warwickshire Council, in accordance with the approved policy.</p>	<p>The PDR process should be informed by inviting the Chairs of the Audit Committee and client s151 officers to provide input to the process.</p> 

	Issue identified	Recommended action
1.	<p>Assignment Planning</p> <p>The team use the Galileo system for tracking progress on assignments however use is not made of facilities to establish dates for completion of stages of the audit or completion of the assignment. Whilst it is recognised that there are occasions when auditee availability prevents early closure, setting of maximum time frames by which draft and final reports should be completed would assist in planning, communication with clients and timely completion of reports.</p> <p>The team recognise this as an issue and has been trying to address the matter internally and with clients.</p>	<p>a) Target times for completion of assignments should be established and communicated to clients at the outset of the work and be more rigorously enforced. </p> <p>b) Reporting deadlines should be imposed for the time allowed following completion of fieldwork for draft and final reports to be received by management. </p>
2.	<p>Terms of reference</p> <p>These are currently based upon a variety of sources and outline key risk areas or areas of focus which are then supported by a range of controls which will then be tested.</p> <p>As such the key risks are not explicitly identified.t.</p> <p>A better basis for developing the assignment may be to think in terms of management objectives and then reflect upon the clients risk register and if not transparent, a discussion with local management regarding what risks will prevent achievement of the management objective. Assurance would then provide comfort that the position stated reflected the control risk and that residual risk was a correct reflection of the client's risk appetite.</p>	<p>a) Terms of Reference should reflect the control risks specified within the clients Risk Management Strategy as this would both enhance embedding risk management within the client and provide for a better basis of communication with stakeholders. </p> <p>b) Where the risk management system does not include such detail planning documents should be based upon a discussion with management to establish management objectives and the inherent risks to the area under review. </p>


	Issue identified	Recommended action
3	<p>Closing meetings</p> <p>The Internal Audit manual refers to creating a document to inform discussion at the closing/exit meeting with clients. At present, it is understood that the draft audit report is often used as a basis for an exit meeting with management, although there are instances where either a wrap-up meeting does not occur or is not documented on a consistent basis.</p> <p>Such an inconsistent approach may cause two problems being:</p> <ul style="list-style-type: none"> a) Discussion with the client is delayed until the draft report is drafted and agreed by internal audit management. b) Factual inaccuracies or misunderstanding arising from internal audit fieldwork may not be revealed until the draft report is produced leading to potential additional delays in completion of assignments. <p>The HoIA expects staff to raise significant issues with management as they arise, although this does not negate the need for and benefit that arises from conduct of a formal exit meeting.</p>	<ul style="list-style-type: none"> a) The HoIA should consider whether in using production of the eventual draft report as the basis for the closure meeting, this fully engages the auditee in the outcomes process on a timely basis at the completion of the fieldwork stage.  b) An exit meeting template could be introduced to support communication regarding the findings of the audit however if auditors are to use the draft report as the basis for discussion they should as a matter of course scan and save on the system any notes taken as part of the exit meeting process in order to support and evidence communication and production and finalisation of the report. 
4	<p>Reports</p> <p>The review observed considerable time between commencement of an audit and delivery of a final report. Some of the delays have occurred due to staff changes and vacancies, with other reasons relating to timescales in receipt of feedback on Terms of Reference and management responses from clients.</p> <p>Nevertheless it is important that reports are delivered on a timely basis in order to ensure that recommendations are identified and acted upon in a timely manner.</p>	<p>In connection with point 1 above, assignment planning should include a planned start and completion time which should be co-ordinated with schedules for reporting to both management teams and Audit Committees. </p>

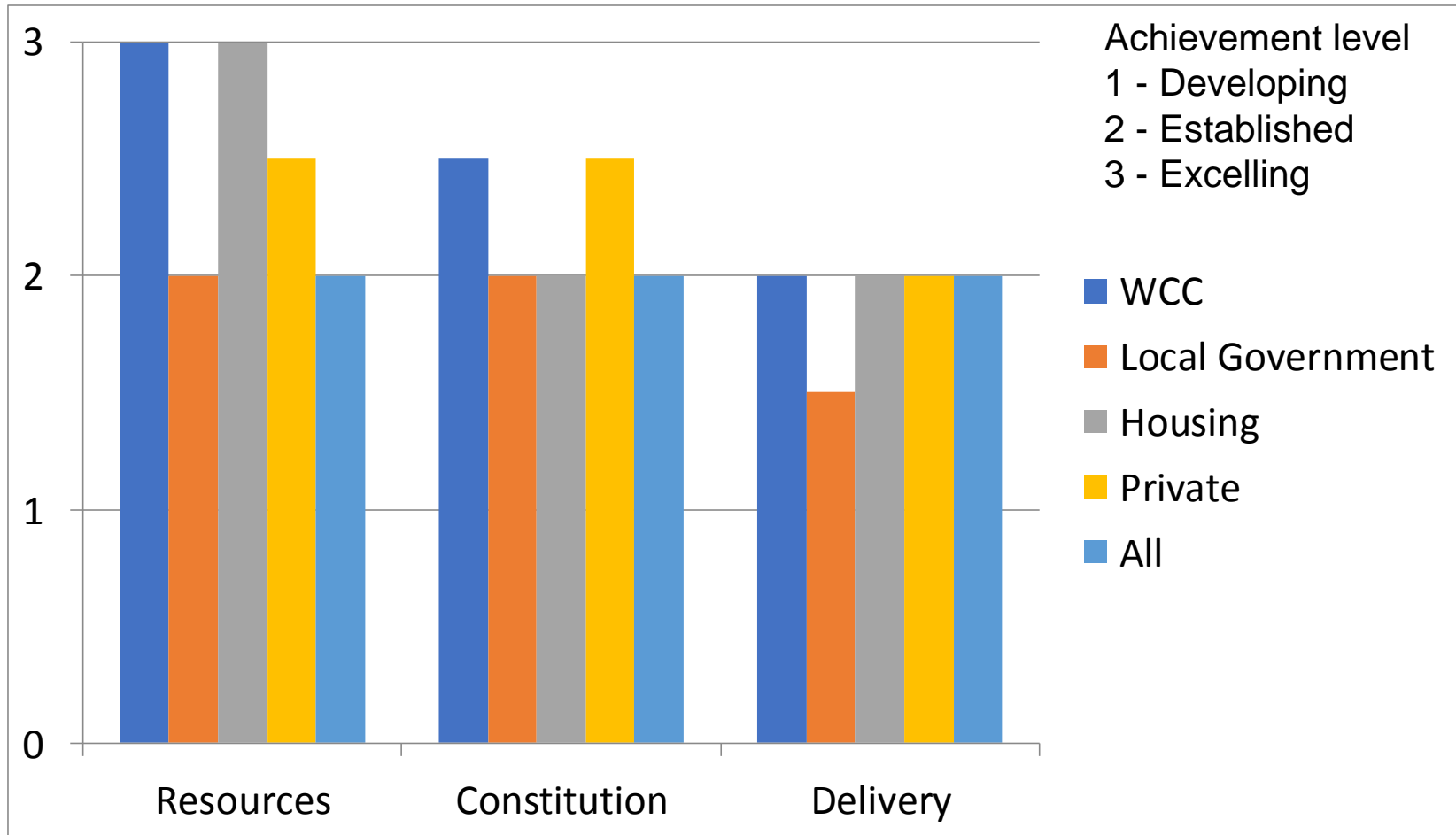
	Issue identified	Recommended action								
5	<p>Audit Opinions - Recommendations</p> <p>These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations being made against definitions of risk and shown as priority indicators</p> <table border="1" data-bbox="204 622 993 1033"> <thead> <tr> <th>Priority</th> <th>Explanation</th> </tr> </thead> <tbody> <tr> <td data-bbox="220 668 253 751"></td> <td data-bbox="272 668 993 776"> Fundamental: Action that is considered imperative to ensure that the organisation is not exposed to high risks. Major adverse impact on achievement of organisation's objectives if not adequately addressed. </td> </tr> <tr> <td data-bbox="220 796 253 879"></td> <td data-bbox="272 796 993 905"> Significant: Action that is considered necessary to avoid exposing the organisation to significant risks. </td> </tr> <tr> <td data-bbox="220 925 253 1008"></td> <td data-bbox="272 925 993 1033"> Merits Attention: Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the organisation's objectives if not adequately addressed. </td> </tr> </tbody> </table> <p><small>These definitions are illustrative only and professional judgement is exercised when determining the priority rating of recommendations</small></p> <p>These definitions are generic and leave room for significant personal judgement of the internal auditor and supervisor.</p> <p>Each client risk management system contains specific guidance regarding to how impact risk is defined and use of these would enable gradings to be directly aligned with the clients risk appetite.</p> <p>(Continued over)</p>	Priority	Explanation		Fundamental: Action that is considered imperative to ensure that the organisation is not exposed to high risks. Major adverse impact on achievement of organisation's objectives if not adequately addressed.		Significant: Action that is considered necessary to avoid exposing the organisation to significant risks.		Merits Attention: Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the organisation's objectives if not adequately addressed.	<p>a) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the client. Explanation of the use of these gradings should be included in all reports.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention (as used by the team) when making recommendations and linked to the client's risk management system.</p> 
Priority	Explanation									
	Fundamental: Action that is considered imperative to ensure that the organisation is not exposed to high risks. Major adverse impact on achievement of organisation's objectives if not adequately addressed.									
	Significant: Action that is considered necessary to avoid exposing the organisation to significant risks.									
	Merits Attention: Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the organisation's objectives if not adequately addressed.									

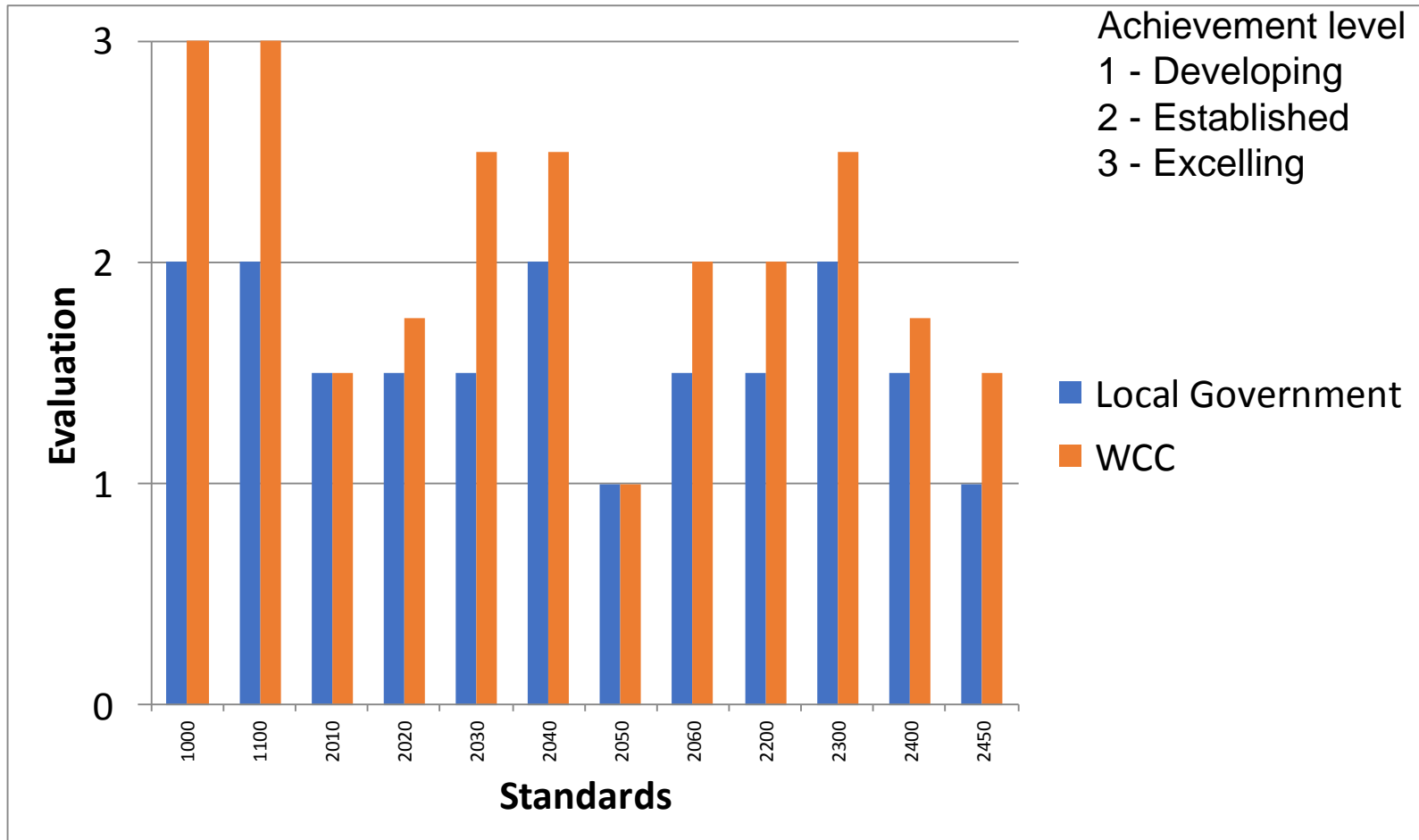
	Issue identified	Recommended action
5 cont		<p>c) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p> <p>It is recognised that current practice provides for minor points to be subject to discussion rather than be included in the formal report.</p> 

	Issue identified	Recommended action								
6	<p>Audit Opinions - Overall opinions</p> <p>These are currently based upon the personal judgement of each auditor, relating to the degree of risk perceived, although the definition of high risk is not related to that stated in the clients Risk Management Strategy (refer to observations above) and is subject to review by the supervisor and HoA of the draft report prior to release.</p> <p>The overall opinion is based largely on the aggregate of the number of recommendations and their level as shown below.</p> <div data-bbox="247 772 823 1296" style="border: 1px solid green; border-radius: 50%; padding: 10px; margin: 10px auto; width: fit-content;"> <p>Professional judgement has to be exercised when deciding on the overall opinion but as a guide and to promote consistency:</p> <table border="1" data-bbox="324 951 736 1133"> <tbody> <tr> <td>Full</td> <td>2 or less merits attention recommendations.</td> </tr> <tr> <td>Substantial</td> <td>1 or 2 substantial recommendations combined with some merits attention</td> </tr> <tr> <td>Moderate</td> <td>3 to 5 significant recommendations with some merits attention</td> </tr> <tr> <td>Limited</td> <td>1 or 2 fundamental recommendations (may also have some substantial recommendations) OR 6 or more significant recommendations</td> </tr> </tbody> </table> <p>All audit recommendations and overall opinions should be substantiated by evidence gathered throughout the audit</p> </div> <p>(continued over)</p>	Full	2 or less merits attention recommendations.	Substantial	1 or 2 substantial recommendations combined with some merits attention	Moderate	3 to 5 significant recommendations with some merits attention	Limited	1 or 2 fundamental recommendations (may also have some substantial recommendations) OR 6 or more significant recommendations	<p>a) The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> - Where a fundamental risk (red) is identified that limited assurance is given. - Where significant risks (amber) are identified then adequate assurance is given, and - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given. <p>An example basis for arriving at opinions is included as Appendix A.</p> <p>b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward and consistent approach for internal audit staff to administer.</p> <p>We do not believe that the use of the term 'full assurance' remains realistic given that the scope of each review cannot consider the entirety of the process within a risk based approach.</p>
Full	2 or less merits attention recommendations.									
Substantial	1 or 2 substantial recommendations combined with some merits attention									
Moderate	3 to 5 significant recommendations with some merits attention									
Limited	1 or 2 fundamental recommendations (may also have some substantial recommendations) OR 6 or more significant recommendations									

	Issue identified	Recommended action
6 cont	<p>Audit Opinions - Overall opinions (cont)</p> <p>The internal audit service currently uses four levels of opinion being – Full, Substantial, Moderate and Limited, with the diagram above being included in the final report to support the opinion.</p> <p>The combination of the adequacy of the control framework and its application should be linked to the risk management strategy and reflects the highest levels of risk identified. That is to say if a recommendation attracts a red rating this reflects a fundamental business risk and the report should immediately attract a limited assurance rating rather than give flexibility.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. It is suggested therefore that an opinion expressing ‘full assurance’ should be avoided due to the focused nature of each assignment.</p> <p>This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	

	Issue identified	Recommended action
7	<p>Annual Report</p> <p>The HoIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion provided within the report should reflect a format that takes account of all information and sources of assurance available to the HoIA and therefore:</p> <p><i>‘must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’.</i></p> <p>The Internal Audit Charter reflects this guidance and states in page 2 that the Authority will:</p> <p><i>“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”</i></p> <p>The HoIA Annual Report uses the following terminology:</p> <p><i>“In undertaking its work, Internal Audit has a responsibility under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived”.</i></p> <p>The opinion is then restricted to an opinion regarding the control environment.</p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available, so that the HoIA is able to provide wider assurance to the client in support of the governance statement.</p> <p>It is accepted practice that the opinion should reflect the adequacy and effectiveness of risk management, governance and control rather than use the generic term ‘control environment’.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope. There is evidence that such assurances are being made in annual reports in relation to major pieces of work providers by other parties.</p> <p>An example of the words which may be used has been provided in Appendix B.</p> 





Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Appendix A

- an example 'Basis for opinions'

KEY FOR RECOMMENDATIONS (IN RELATION TO THE SYSTEM REVIEWED)

Fundamental (F)	- The organisation is subject to levels of fundamental risk where immediate action should be taken to implement an agreed action plan. In the Colleges Risk Management Policy this approximates to the Risk Grading - Catastrophic
Significant (S)	- Attention to be given to resolving the position as the organisation may be subject to significant risks. In the Colleges Risk Management Policy this approximates to the Risk Grading - Major
Merits Attention (MA)	- Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness. In the Colleges Risk Management Policy this approximates to the Risk Grading - Minor

Page 139

OVERALL OPINION (ASSURANCE)	FRAMEWORK OF CONTROL	APPLICATION OF CONTROL	EXPLANATION	TYPICAL INDICATORS
Substantial (Positive opinion)	Good	Good	The control framework is robust, well documented and consistently applied therefore managing the business-critical risks to which the system is subject.	There are no fundamental or significant recommendations attributable to either the Framework or Application of Control.
Adequate (Positive opinion)	Good	Appropriate	As above however the audit identified areas of non-compliance which detract from the overall assurance which can be provided and expose areas of risk.	There are no fundamental recommendations surrounding the Framework of Control; coupled with no fundamental and no more than two significant recommendations attributable to the Application of those controls.
	Appropriate	Good	The control framework was generally considered sound but with areas of improvement identified to further manage the significant risk exposure; controls were consistently applied.	There are no fundamental recommendations attributable to the Framework of Control.
	Appropriate	Appropriate	As above however the audit identified areas of non-compliance which expose the organisation to increased levels of risk.	There are no fundamental recommendations attributable to the Framework and Application of Control.
Limited (Negative opinion)	Good / Appropriate	Weak	As above however the extent of non-compliance identified prevents the Framework of Control from achieving its objectives and suitably managing the risks to which the organisation is exposed.	There are more than two significant recommendations attributable to the Application of Controls.
	Weak	Good / Appropriate	The control framework despite being suitably applied is insufficient to manage the risks identified.	There are more than two significant recommendations attributable to the Application of Controls.
	Weak	Weak	Both the Framework of Control and its Application are poorly implemented and therefore fail to mitigate the business-critical risks to which the organisation is exposed.	There are fundamental recommendation(s) attributable to either or both the Framework and Application of Controls which if not resolved are likely to have an impact on the organisations sustainability.

The above is for guidance only; professional judgement is exercised in all instances.

Example wording for positive annual opinion

As the internal audit service provider to the organisation, I am required as the Head of Internal Audit to provide the organisation and the Chief Executive with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the organisation's risk management, control and governance processes.

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

- All audits undertaken during the year;
- Any follow-up action taken in respect of audits from previous periods;
- Significant recommendations not accepted by management or acted upon and the consequent risks;
- The effects of any significant changes in the organisation's objectives or systems;
- Matters arising from previous reports to the organisation;
- Any limitations which may have been placed on the scope of internal audit;
- The extent to which resources constraints may impinge on the Head of Internal Audit's ability to meet the full audit needs of the organisation;
- What proportion of the organisation's audit need has been covered to date; and
- The results of work performed by other assurance providers including the work of the financial statement auditors (if applicable).

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the organisation's risk management, control and governance processes.

Overall in our opinion, based upon the reviews performed during the year, the organisation:

- has adequate and effective risk management arrangements;
- has adequate and effective governance; and
- has adequate and effective control processes.

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

INTERNAL AUDIT PLAN 2018/19

Recommendations

- 1. The Chief Financial Officer recommends that the Internal Audit Plan 2018/19 attached as an Appendix be endorsed.**

Background

2. The Council has a duty to undertake an effective Internal Audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account relevant auditing standards.
3. The role of Internal Audit is primarily to provide assurance to the organisation and ultimately the taxpayers that the Council maintains an effective control environment that enables them to manage its significant business risks. Internal Audit does this **by providing risk-based and objective assurance, advice and insight**. In addition to providing assurance the audit service also undertakes advisory work designed to add value and offer insights that will improve the effectiveness of risk management, control and governance processes, for example acting as a critical friend when process changes are being developed.
4. To ensure the best use of limited Internal Audit resources audit work needs to be carefully planned. Whilst Internal Audit are unable to provide assurance on all risks the Committee is able to accept a plan on this basis, provided this matches its “risk appetite” for independent assurance, also recognising that management have the prime accountability for managing processes and risks (and therefore assurances can be obtained directly from them where necessary). In accordance with its terms of reference the Committee’s role is to review the annual Internal Audit work plan. The plan is developed in consultation with senior managers and takes account of the organisation’s aims, strategies, key objectives, associated risks, and risk management processes (as required by internal audit standards). It also takes into account those service areas which have not recently been audited, feature in the corporate risk register, or which when last audited, received a low opinion. The plan explicitly links proposed audits with critical risks.
5. The list of potential topics arising from the planning process is included in the attached Internal Audit plan (**Appendix**) which takes into account a range of factors including: when the topic was last audited, complexity of the topic, and the level of change.

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

7. The Internal Audit function is governed by its Audit Charter, which is a requirement of the Public Sector Internal Audit Standards and sets out the purpose, authority and responsibility of internal audit. As the Committee will appreciate, it has to be formally agreed and approved by the organisation and periodically reviewed. The Charter establishes the internal audit activity's position within the organisation, including the nature of the service's functional reporting relationship; authorises access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities. The current Audit Charter was last considered by the Committee in 2017 and at this time no changes are proposed.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: Ext 6268

Email: mhudson@worcestershire.gov.uk

Supporting Information

- Appendix 1- Internal Audit Plan 2018/19

Background Papers

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



Internal Audit Plan 2018/19

“Providing assurance on the management of risks”



Internal Audit Plan 2018/2019

“Providing assurance on the management of risks”

This document sets out the Internal Audit Plan 2018/2019 for Worcestershire County Council. These services are provided by the Internal Audit Service of Warwickshire County Council in partnership with Worcestershire. This document complements the Audit Charter and the formal agreement with Warwickshire. The Internal Audit and Insurance Manager of Warwickshire is the Council’s designated Head of Internal Audit.

The Role of Internal Audit

Evaluating the effectiveness of risk management

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

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



Providing assurance

The requirement for an internal audit function is also contained in the 2015 Regulations which require the Authority to:

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

Definition of Internal Auditing

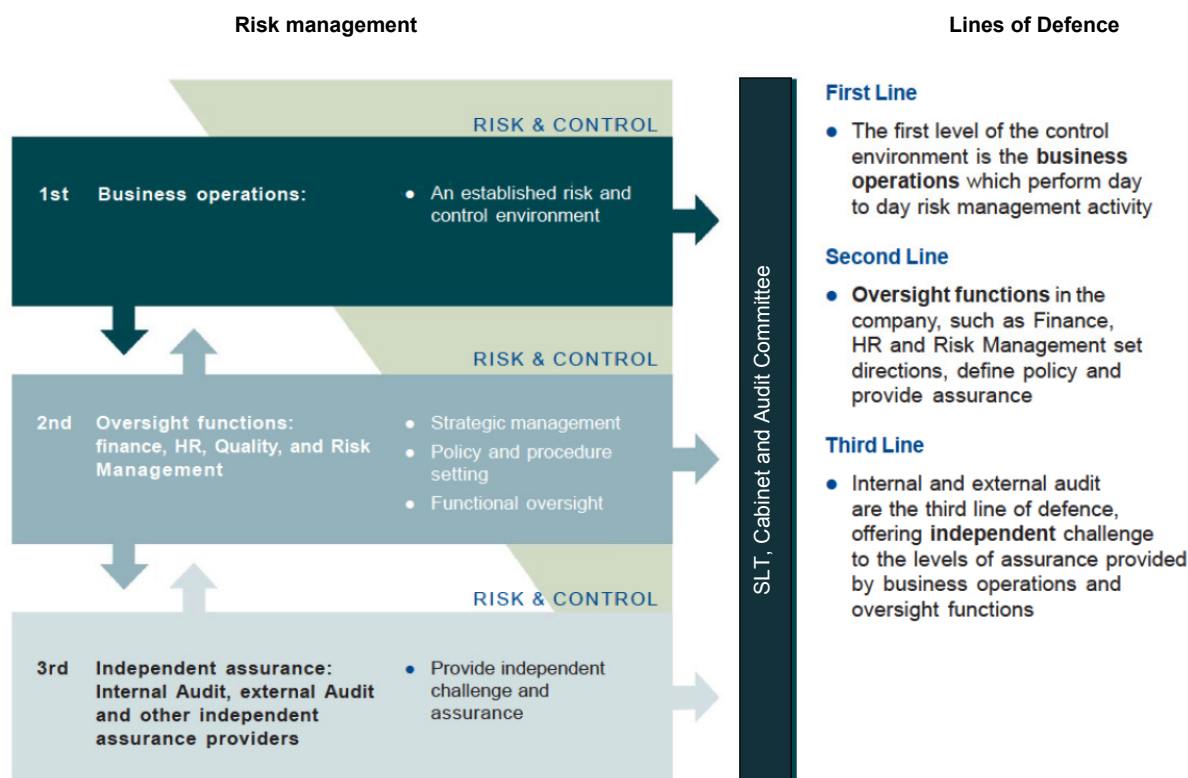
“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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

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

Three lines of defence

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

- 1st line of Defence – functions that own and manage risks
- 2nd Line of Defence – functions that oversee risk
- 3rd Line of Defence – functions that provide independent assurance



The management of risks is the responsibility of every manager. Sitting outside the processes of the first two lines of defence, audit's main roles are to:

- ensure that the first two lines of defence are operating effectively; and
- advise how they could be improved.

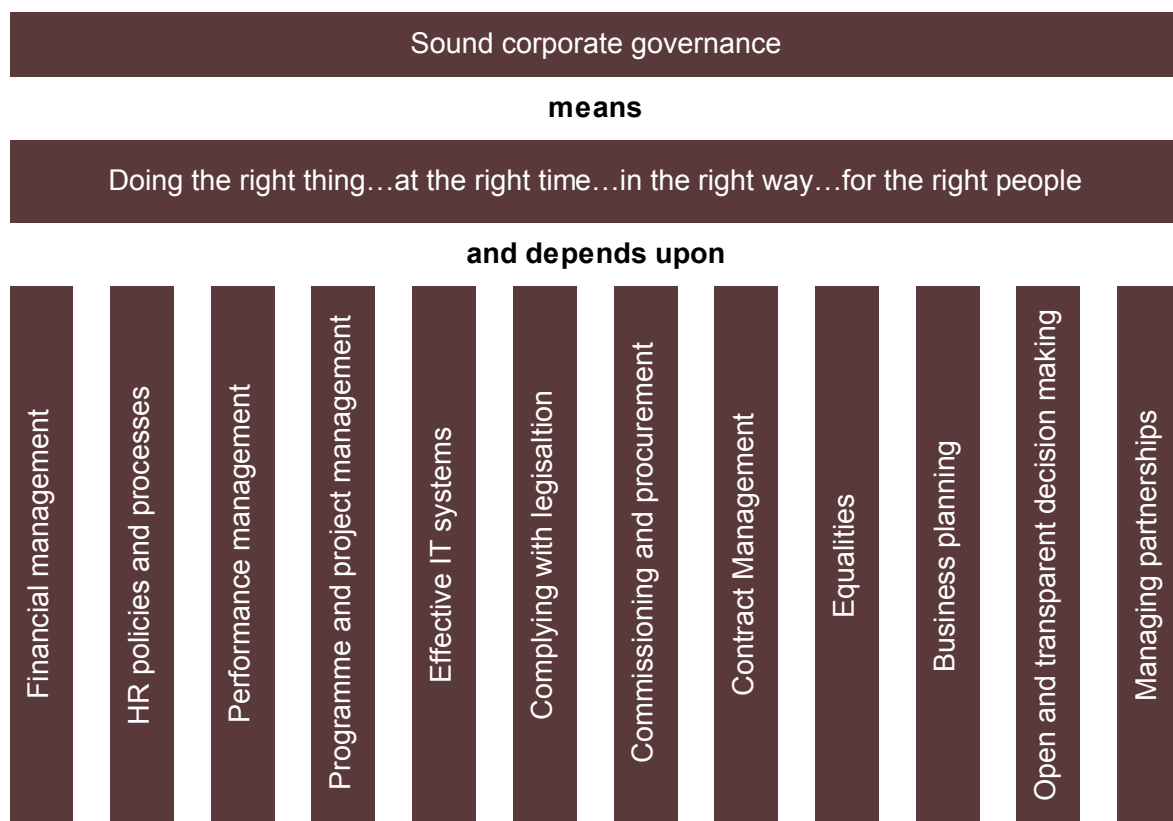
Blurring audit's role by undertaking roles that are properly the responsibility of the first or second line of defence should be avoided.

Internal Audit Planning

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

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

Figure 1: Key corporate processes



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



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

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

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

Vision, purpose and values

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

As a modern effective internal audit service we:

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

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

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

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

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

Other Services

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

Consultancy / Advice

The Council will face major changes in systems and procedures over the coming years and we are able to provide advice on the governance, control and risk implications of these changes. The service will act as a critical friend. Particular emphasis is put on project governance and process design.

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

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

Challenge

Champion

**Catalyst for
improvement**

It is more constructive for us to advise on design of processes during a change project rather than identify problems after the event when often it is too late to make a difference, and it is possible to use less resource to identify key points than in a standard audit - timely advice adds more value than untimely criticism.

Irregularities

As a publicly funded organisation the Council must be able to demonstrate the proper use of public funds. It is the responsibility of every manager to have systems in place to prevent and detect irregularities. However, if an irregularity is identified, or suspected, managers are required to notify the Service and may need professional support to investigate the matter.

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

We are also responsible for coordinating the Council's participation in the National Fraud Initiative.

Our approach for 2018 / 2019

In developing the list of planned topics we have taken into account existing management processes and oversight by second line of defence functions such as

HR, Health & Safety and Legal; as well as external agencies such as CQC and Ofsted. The Internal Audit service therefore builds upon the work of other assurance providers and allows us to reduce the resource required for some advisory topics. This approach will be further refined in future plans. Similarly, although our roles and responsibilities are different the service continues to liaise closely with the Authority's External Auditors (Grant Thornton).

Based upon extensive discussions with directors and heads of service and our professional judgement an indicative priority has been allocated to each potential topic. This takes into account a range of factors including: when the topic was last audited, complexity of the topic and level of change. The links between the severe risks listed in the Council's risk register and the Internal Audit Plan is shown in Annex 1. Demonstrating the assurances planned on each strategic risk and being transparent about auditable topics that cannot be audited are key requirements of internal audit professional standards which also require a top down approach with the plan being driven by key risks.

The aim is to give a high-level overview of audit areas with detailed terms of reference being agreed when audits commence. Whilst we are unable to provide assurance on all risks facing the Council the Committee is able to accept a plan on this basis, provided this matches its "risk appetite" for independent assurance, also recognising that management have the prime accountability for managing processes and risks (and therefore assurances can be obtained directly from them where necessary).

Those service areas that will not be audited during the year have been discussed with the Chief Financial Officer.

Whilst providing advice on governance, risk and controls implications of key projects is good practice and reduces the risk of not addressing these issues which potentially could result in an adverse opinion from a future assurance assignment, assurance work is essential to ensure sufficient coverage to deliver the annual Head of Audit opinion. The plan therefore takes a proportionate approach to consultancy and focusses on key projects:

- The replacement of Frameworki
- Alternative delivery model for Children Social Care
- Continued development of financial systems and the final accounts process

Following the implementation of new systems in 2017/18 a significant amount of time has been allocated to the audit of core financial systems. The need for individual school audits will be considered on a case by case basis.

There will inevitably be circumstances where the Internal Audit Manager will have to amend the programme, e.g. when risks change or a specific project becomes a matter of priority. There may be cases where individual lower priority audits have to be rescheduled because of competing priorities. Throughout the year the plan will be updated to ensure it remains relevant. In year changes to the plan to reflect such changes are accepted as best practice. This plan, therefore, is not set in stone. All amendments will be agreed with the Chief Financial Officer, and reported to the Audit and Governance Committee.

The total cost of Internal Audit for 2018/19 is £306,000.

The Internal Audit Team

The core team that will deliver the Internal Audit plan at Worcestershire are qualified with significant experience of internal audit and the Council:

Engagement Manager	Jackie Sparkes
Principal auditors	Chris Portmann Lisa Smith
Senior auditors	Andrew Dyson
Auditors	Jo Hastings Dominic Roberts Helena Warnett

The core team will be supplemented by other staff and specialist IT auditors as required. Jackie will be supported by Garry Rollason and Paul Clarke.

Performance

The performance of the Internal Audit Service is subject to regular monitoring. The performance standards for 2018/19 are:

Performance Indicator	Target
All of individual audit assignments to include a final report with agreed recommendations and action plan.	100%
Draft reports to be issued within a maximum of 15 working days following the completion of the audit.	95%
Final reports to be issued within 5 working days of the report being approved by the Head of Service.	100%
Achievement of the Annual Internal Audit Plan by 30 April following the year end.	95%
Attendance at planned meetings with officers, councillors and external audit where required.	100%
Average score from client satisfaction survey issued following the completion of planned audit, special investigations and grant audits.	Average score is at least 4 (on a scale of 1 to 5)

Quality Assurance and Improvement Programme

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

The QAIP includes internal assessments, periodic self-assessments and external assessments and is not only designed to assess the efficiency and effectiveness of Internal Audit, but also to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics.

A full external assessment of the audit service was undertaken in 2017/18 which concluded that service "complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector." We have an Audit Manual based on accepted professional practice which as well as being compliant with PSIAS builds quality into every stage of the audit process. A summary of the QAIP is shown in Annex 3.



Audits are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Key Contacts

Garry Rollason
Internal Audit and Insurance Manager
(Head of Internal Audit)
garryrollason@warwickshire.gov.uk
07584 490287

Paul Clarke
Deputy Internal Audit Manager
paulclarkere@warwickshire.gov.uk
07887 218003

Jackie Sparkes
Audit Engagement Manager
jackiesparkes@warwickshire.gov.uk
07917 073275

Links between the Council's severe risks and the Internal Audit Plan

Risk	Risk Severity	Examples of past internal audit coverage ¹	Examples of proposed internal audit role / planned assignments
Inability to meet need for services because of demographic demand/reduced resources/staff		<ul style="list-style-type: none"> • Panel process (Moderate) • Brokerage (Substantial) • Continuing health care (Moderate) • Social work practice (Substantial) • Hospital discharges (Substantial) 	<ul style="list-style-type: none"> • Financial Assessments and billing • Direct Payments • Commissioning and Contracting • Domiciliary care • Framework replacement
Increased Delayed Transfers of Care		<ul style="list-style-type: none"> • Hospital discharges (Substantial) 	<ul style="list-style-type: none"> • Care packages optimisation/ Urgent Care system
Lack of capacity of adult social care providers - Residential & Nursing care			<ul style="list-style-type: none"> • Procurement
Ineffective Corporate Business Continuity / Emergency Response e.g. to Human Pandemic		<ul style="list-style-type: none"> • Emergency planning (Substantial) 	
Budget overspend/ underspend - financial pressure and failure to achieve required savings		<ul style="list-style-type: none"> • Contract management (WIP) • Transformation and savings plans (WIP) • Budget management (WIP) 	<ul style="list-style-type: none"> • Delivery of Budget reductions • Collaborative Planning • MTFP • Procurement
Reputational Risk as a Result of Receiving a Poor Ofsted Inspection Rating			<ul style="list-style-type: none"> • Transitions • Safeguarding • Early help effectiveness • LAC Placements and placement spend

¹ Only audits completed in last 3 years are shown

Risk	Risk Severity	Examples of past internal audit coverage ¹	Examples of proposed internal audit role / planned assignments
			<ul style="list-style-type: none"> • Foster care/payments
Workforce - Vacancy rates / Turnover of Senior Staff			<ul style="list-style-type: none"> • HR Strategy/Policy development and compliance
Recruitment/development of employees with the right capabilities and skills			<ul style="list-style-type: none"> • HR Strategy/Policy development and compliance
Culture - Embedding behavioural change			<ul style="list-style-type: none"> • Corporate Governance • HR Strategy/Policy development and compliance
Failure to Safeguard Vulnerable Children - Serious Harm or Death of a Child or Young Person		<ul style="list-style-type: none"> • Adult Case file audits (Limited) • Schools themed - safeguarding (Substantial) 	<ul style="list-style-type: none"> • Safeguarding

Workplan 2018/19

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
Adults	Transition from Children to Adult services	It is important that the needs of a service user approaching 18 are appropriately assessed and cost implications understood and that there is a sound process for transferring information to Adult Services.	Assurance required on process for transfer of clients from Children services to Adults. To include clarity and timeliness of communication and potential costs.	2
	Safeguarding	A failure to comply with safeguarding policies and procedures could result in abuse, neglect, serious injury or death of a vulnerable adult. High profile risk area. Potential for financial claims against the Council. Failure of a joined up approach with partner agencies. Worcestershire Safeguarding Adults Board has a range of statutory duties.	Review of overall arrangements in place for safeguarding vulnerable adults including the role of the WSAB and MASH	2
	Financial Assessments and billing	Accurate assessment of charges to be paid by a service user and their timely recovery. Non declaration of assets has been identified nationally as a key fraud risk.	Assurance on the governance, risk management and controls relating to the assessment of charges for care and recovery processes.	2
	Care packages optimisation/ Urgent Care	Area subject to risk of overspend as well as pressure to make savings	Review of end to end process to identify adequacy of controls and opportunities for greater efficiency.	2
	Framework replacement	Key IT system which is being replaced to a very tight timetable because end of support has been brought forward. Late implementation may affect ability to patch and also PSN compliance.	Advisory input on governance, risk management and control implications of the implementation. To include data migration and security model.	1 – 4
	Direct Payments	Responsibility for buying care rests with the service user. Misuse of funds is a key fraud risk. Limited opinion audit in 2017/8.	Review of the systems for administering direct payments including the monitoring of spend. Adequacy of arrangements to prevent / detect fraud.	4
	Domiciliary care	High spend and high profile service. Introduction of 3 conversations model to manage demand.	Review of policies and processes for assessing need and agreeing care	4

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
			plans. Financial monitoring of spend.	
Children, Families and Communities	Safeguarding	A failure to comply with safeguarding policies and procedures could result in abuse, neglect, serious injury or death of a child. High profile risk area. Potential for financial claims against the Council. Failure of a joined up approach with partner agencies. Worcestershire Safeguarding Children Board has statutory duties to co-ordinate the work of relevant agencies. Given national cases there is always a risk that case records are not maintained adequately or shared in accordance with guidelines. GDPR implications.	Review of overall arrangements in place for safeguarding children including the role of the WSCB and MASH. The audit will also assess standards of records management and training of staff in records management.	
	SEND	Growth in numbers requiring places and transport. Significant budget pressures. Work underway to address these issues and ensure that our statutory requirements are met. Adequacy of management and financial information relating to transport. Recent critical SEND inspection.	Assurance that action plan to address issues raised in inspection is on track. Governance of SEND Transport project. Adequacy of financial and management information on transport costs.	3
	Alternative Delivery Model	Council considering options for an alternative delivery model in response to Ofsted inspection. High profile topic.	Advice on project governance, risk management and control implications of proposals.	2 - 4
	Schools in financial difficulties	Significant number of schools in difficulties. With some schools operating at a deficit for a number of years	Arrangements to identify schools causing concern and to provide appropriate support to prevent a governance failure. Arrangements to ensure that schools with a deficit are supported to return to a balanced budget. Lessons are learnt from failures.	2
	Schools Limited assurance revisits	High rated recommendations from previous audit may not have been implemented / addressed	Revisit schools that received a limited opinion in previous year.	3

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
		risks identified.		
	Schools Thematic Reviews	Implementation of new financial and payroll / HR systems in 2017/8.	Visits to a sample of schools to assess budget management, payroll, procurement, ordering and creditor payments processes.	
	Early help	Bringing targeted family support back in house. Effectiveness of Early Help Service being considered as part of Ofsted Improvement Plan.	Assurance on governance of improvement plans and effectiveness of key performance measures / performance management regime.	
	Looked after children - Placements and placement spend	High spend service with limited number of providers. Streamlined, timely but robust process required to identify provider. Use of frameworks.	Assurance on the process for identification, assessment of need and placement.	
	Foster care/payments	Is best value being obtained. Shortage of carers. Key fraud risk area. Delay or incorrect payments could create financial issues for foster carers and in turn for the Looked After Child.	Assurance on the process for recruitment, retention, training and payment of foster carers.	
Economy & Infrastructure	Waste	Costs of dealing with waste are increasing. Worcestershire and Herefordshire currently have a PFI contract with Mercia Waste management for various facilities which ends in 2023. No recent internal audit coverage.	Assurance on the overall arrangements for managing waste especially the contract with Mercia.	2
	Approval of development	Robust process needed for processing s278 (adjustment to existing highways) and s38 (adoption of highways) applications to ensure these processed in a timely manner and right amount is received at the right time. Charging methodology is transparent, consistently applied and recovers costs.	Overall governance and controls relating to management of developer contributions.	
	Economic Growth and Investment Team	The team provides support to applicants for ERDF funding and generally promote funding opportunities. Worcestershire is the accountable body.	Assurance on overall arrangements for awarding grants.	

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
Commercial and Commissioning	Information Management	Implementation of GDPR on May 25th has increased potential for legislative / regulatory breaches that could result in increased risk of penalties for non-compliance or reputational damage.	Governance of GDPR project and information governance generally. Compliance with GDPR requirements has been achieved or a project plan exists and is on track to secure compliance. Training, guidance and support available to managers.	
	Procurement	Key corporate process. Robust process essential to deliver value for money.	Robust procurement, quotation and tendering processes exist and are consistently followed with appropriate training, support and guidance available to managers responsible for procurement. Adequacy of management and financial information on procurement activity. Central procurement resource is adequately skilled and staffed.	
	IT Governance	Major IT contract with DXC largely being brought back in-house during 2018/9. Some functions remain with DXC over which robust governance will be required. Limited in-house IT skills at present hence have a single point of failure but should be resolved once DXC contract in-sourced. Essential that following this an appropriate organisation structure is setup with robust division of duties and is appropriately staffed. Continued expectations on ICT to deliver efficiencies.	Assurance over arrangements for in-sourcing of IT. Management of the residual contract with DXC. Assessment of governance arrangements for IT once DXC contract in-sourced (performance and financial monitoring and prioritisation of work / support).	2
	Cyber Security	Robust controls are essential due to the increase in the number of cyber related attacks, including ransomware, which may result in data loss or corruption, and a serious impact on the Council's ability to conduct its day-to-day business and cause reputational damage. The Cyber Essentials	Assessment of controls primarily using the Cyber Essentials Scheme as the baseline standard.	2

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
		Scheme (CES) was launched by the UK Government in June 2014. The scheme aims to guide organisations in protecting themselves against cyber threats.		
	Data centre	Key infrastructure asset requiring adequate security measures and fall back plans to ensure continuity of service.	Assurance on security and resilience of the data centre and communications facilities.	2
	Liberata contract	Major contract for provision of finance and HR services to the Council. Robust contract management is essential to ensure the Council receives the service required at the agreed price. Significant issues in previous years.	Contract management arrangements including existence, adequacy and monitoring of performance indicators. Payments are only made in accordance with contractual provisions. Appropriate action is taken to address poor performance.	
	HR Strategy/Policy development and compliance	Good HR practices are fundament to delivering the Council's objectives and delivering good quality services. HR policies have been reviewed.	Compliance with HR policies especially absence and performance management. Adequacy of support, training provided to managers.	
Public Health	Ring-fenced grant	Public health grant which funds all of public health service ends March 2020.	Adequacy of preparations for ending of grant funding. Governance arrangements for the project.	3
	Commissioning and Contracting	Public Health have a number of significant contracts two of which will be retendered in March 2019.	Assessment of existing contract management arrangements to identify lessons to be learnt to feed into retendering exercise. Existence, adequacy and monitoring of performance indicators. Payments are only made in accordance with contractual provisions. Appropriate action is taken to address poor performance.	1
Cross cutting	Delivery of Budget reductions	The Council has to deliver significant budget savings over the coming years. Overall financial	Governance of the savings programme. Process for identifying and costing	

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
		position for local authorities over the medium term is uncertain. Significant demand led pressures. Robust process needed to identify and cost savings proposals.	existing savings proposals. Monitoring of delivery of savings plans.	
	Corporate Governance	Sound corporate governance processes underpin the Council's ability to deliver quality services.	Assessment against the requirements of the Cipfa / Solace Framework.	
	Project management	A number of significant projects underway and major projects often subject to overruns. Have lessons been learnt from previous projects.	Robust project management methodology in place with relevant guidance, support and training available to staff. Adequacy of financial monitoring. Robust process in place leading up to project approval and entry into capital programme.	
	Risk Management	The next few years will present unprecedented challenges for the Council in delivering its services. Whilst these changes create opportunities; they also create significant risks and uncertainty. The Council has to manage the risks and opportunities associated with the delivery of its outcomes, by adopting good risk and opportunity management principles.	Overall assessment of the Council's risk management processes. Including the existence of up to date policies and procedures which are consistently followed. Reporting of risks. Adequacy of support and training available to managers and members.	
	Corporate Risk Management Group	Key corporate group driving the development of risk management.	Attendance at and general support to the Group.	1 - 4
Finance	MTFP	Significant financial issues in the coming years. Following CIPFA advice and using a 3 year cash allocation process. MTF Policy to be amended. Council is facing significant financial pressures	Assurance over the process for developing the MTFP.	3
	Budget management	Collaborative planning module being implemented in 2018/9. System is fundamental to monitoring of budgets, forecasting and delivery of savings plans.	Use of the system, Adequacy of testing and links with other systems. Adequacy of training and support available to managers.	3

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
	General Ledger	New system E5 implemented 2017/8. Key financial system	Assurance that system and processes are now embedded and operating efficiently and effectively. Scope limited to controls operated by the Council. To cover reconciliation of control accounts, feeder interfaces, clearance of suspense accounts.	2
	Key financial systems - Access Controls	New system E5 implemented 2017/8. Key financial system	Robust process exists for adding new users and removing leavers from the system. Appropriateness of security model.	2
	Bank Reconciliation	New system E5 implemented 2017/8. Key financial system	Assurance that system and processes are now embedded and operating efficiently and effectively. Scope limited to controls operated by the Council.	2
	Accounts Payable	New system E5 implemented 2017/8. Key financial system. Limited opinion in 2017/8.	Assurance that system and processes are now embedded and operating efficiently and effectively. Scope limited to controls operated by the Council.	2
	Payroll	New system iTrent implemented 2017/8. Key financial system	Assurance that system and processes are now embedded and operating efficiently and effectively. Scope limited to controls operated by the Council.	2
	Accounts Receivable	New system E5 implemented 2017/8. Key financial system. Limited opinion given in 2017/8	Assurance that system and processes are now embedded and operating efficiently and effectively. Scope limited to controls operated by the Council.	3
	Final Accounts and Annual Governance Statement - Quality Assurance	New system E5 implemented 2017/8. Key process. Significant issues with 2016/17 closedown.	Quality assurance and advice on final accounts / AGS process for 2017/8 and 2018/19	1 and 4

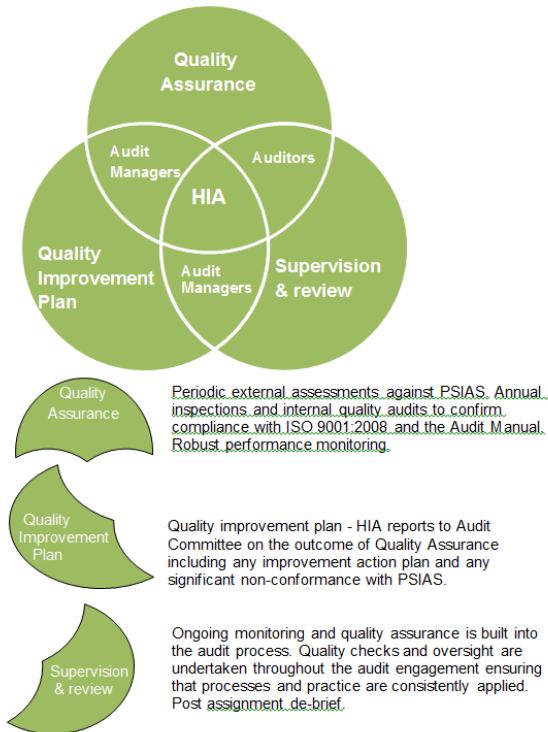
Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
	Treasury Management	Major financial process involving significant sums. Cipfa have issued a code of practice on treasury management. Optimum returns are obtained consistent with risk appetite.	Assurance on arrangements to manage the County's cash flow and the related risks.	2
	Pensions – Administration	The County Council is the administering authority for the WCC Pension Fund. This includes: maintaining membership records, admission of new bodies to the scheme, processing transfer values and contributions, payment of pensions and other benefits. GDPR impact. Growing complexity of arrangements impacting on skills required of administering body - Cipfa Code of practice sets out skills and knowledge required.	Assurance on controls relating to administration of the pension scheme.	3
	Pensions – Investments / Pooling	Key financial system involving large amounts. The Council has joined the Central Pool. WCC assets will be transferred to the Pool during 2018/9 so assurance needed over the transfer. Need to coordinate with the auditors of other members of the Pool to develop a coordinated assurance strategy.	Assurance on the transfer of assets to the Pool and management of risks associated with the management of the investments of the Worcestershire Pension Fund.	2
Grant/Fund Audits	BSOG/Bus subsidy	Internal audit certification is mandatory	Grant certification	2
	Troubled Families	Internal audit certification is mandatory	Grant certification	1 - 4
	Growth Hub	Internal audit certification is mandatory	Grant certification	1
	Local Transport Capital – (Integrated Transport & Highways Maintenance)	Internal audit certification is mandatory	Grant certification	2

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)
	Local Transport Capital - (Pot Hole Action Fund)	Internal audit certification is mandatory	Grant certification	2
	Local Transport Capital - (National Productivity Investment Fund)	Internal audit certification is mandatory	Grant certification	2
	Local Transport Capital (Flood Resilience Fund)	Internal audit certification is mandatory	Grant certification	2
	Local Growth Fund	Internal audit certification is mandatory	Grant certification	2
	Youth Justice Board	Internal audit certification is mandatory	Grant certification	1
	Kidderminster Trust Fund	Internal audit certification is required by management	Certification of Fund's accounts	1
Other	WLEP	The County Council is the accountable body for the Worcestershire Local Enterprise Partnership. Best practice guidance on LEP transparency and governance was published in January 2018.	The review would assess the extent to which the WLEP governance structures as designed and documented in the WLEP Assurance Framework February 2018 meet the LEP National Assurance Framework 2016 (informed by the LEP governance and transparency best practice guidance 2018). It would also examine on a sample basis the application of the framework in practice.	3
	Counter Fraud governance arrangements	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption sets out best practice for the management of fraud risks.	Assessment against CIPFA Code of Practice identifying areas for improvement.	
	National Fraud Initiative (NFI)	Participation on the NFI is mandatory	Coordination of the Council's participation on the NFI.	3 - 4

Service	Topic	Potential control / governance issue	Proposed Audit Coverage	Indicative timing (Qtr)

Annex 3: QAIP

Internal Audit Service – Quality Assurance and Improvement Programme



Head of Internal Audit

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

Audit Managers

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

Auditors

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

All

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

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

MEMBER DEVELOPMENT

Recommendation

- 1. The Chief Financial Officer recommends that the Committee consider the proposed development programme for the Committee, and seeks the Committee's view on how to progress development of the Committee members.**

Purpose of Report

2. A key requirement of an effective Audit Committee is well-informed members that collectively have some knowledge and experience of the key areas to be considered by the Committee. Appropriate and timely training for Members is an important way of ensuring Members are well prepared and gain the knowledge and experience needed to carry out their role effectively. In response to comments made at previous meetings this report sets out a number of options for the development of Members of the Audit and Governance Committee.

Background

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) in their guidance for audit committees sets out a knowledge and skills framework for audit committee members and the committee chair which is summarised in the Appendix. The guidance draws a distinction between core areas of knowledge that all audit committee members should seek to acquire, core skills and a range of specialisms that can add value to the committee.

4. There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

5. When preparing a programme of training for members it is of course necessary to also consider the other demands on Members time. Training could be clustered so that several topics are dealt with in a day or half day session. It may be difficult for some Members to attend full / half day training sessions and a briefing on the same day as a scheduled meeting of the committee would be more appropriate. This could be short say, one hour, topic based, briefing sessions either prior to or after meetings of the Committee and could be linked to items on the agenda. A full day or half day sessions would open up the possibility of using an external training provider, such as CIPFA or the Institute of Internal Auditors (IIA). Although this would clearly incur

additional costs it may be a more effective option for the Core Skills element of a development programme.

6. Some “induction” type training would be appropriate for any new appointments to the Committee as soon as possible after the appointment is confirmed. This could cover the committee’s remit, the environment in which it operates and the rights and duties of its members. New members could be introduced to the relevant codes of practice, the authority’s most recent annual report and accounts, and be given a briefing on the role of internal and external audit. This could be organised as part of the general member induction programme at the start of a new Council or on an ad-hoc basis when a new member is appointed to the Committee.

Proposal

7. A draft training plan has been developed for members to consider. This is in two parts:

- A half-day session covering the core skills needed by all members, as outlined in the Appendix, on a date to be agreed during 2018/19. It is suggested that this is delivered by an external trainer.
- A series of one hour briefings immediately before a scheduled meeting of the meeting starting with the September meeting. These would be delivered by the relevant officer and would cover the core knowledge areas required by all members. The suggested sessions are:

Topic	Date	Outline content
Role of the audit committee – one hour	September 2018 - one hour	What makes an audit committee successful. Cipfa guidance. Why is a committee needed – past governance failures such as Enron. Difference between audit and scrutiny. Overview of role.
Process & control environment, including decision making and the role of audit	October 2018 – half day	Review how systems operate, where controls need to apply and how they should be being applied. Assess the role of the constitution and how Audit Committee fits within that and decision making, as well as how are the Financial and Procurement Regulations applied. Introduction to internal audit standards, strategic planning process, audit process. Three lines of defence model. The committee’s role. Reviewing the role of the external auditor, auditing standards, reporting and materiality.
Corporate Governance and Risk Management	December 2018 – one hour	Risk management policy, strategy and process. The corporate risk register. AGS process. The committee’s role. CIPFA / Society of Local

		Authority Chief Executives (SOLACE) framework.
Budget setting – all councillors	January 2019 – 2 hour session	Review the budget setting process
Accounts	March 2019 – one hour	Reviewing the annual accounting policies, changes from 2017/18 and key accounting statements.
Fraud	June 2019 - half day	Key fraud risk areas. Anti-fraud strategy. Disciplinary process. The Committee's role.
Treasury Management	July 2019 – one hour	Assess the role of the Council in setting a prudent Treasury Management function.

Conclusion

8. So that officers can firm up a skills development programme, Members are asked for their views in relation to the following specific questions:

- Should training mainly consist of briefings before / after meetings of the Committee or should training be provided through half-day sessions?
- If the Committee's preference is for a briefing prior to meetings what is preferred start time?
- Is the programme suggested in paragraph 7 acceptable?
- What further topics would Members suggest for future sessions?

Supporting Information

Appendix – Audit committee members – knowledge and skills framework

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 846942

Email: mhudson@worcestershire.gov.uk

Background Papers

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

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Organisational knowledge	An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority.
Audit committee role and functions	An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee.
Governance	Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS. Knowledge of the local code of governance.
Internal audit	An awareness of the key principles of the PSIAS and the LGAN. Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.
Financial management and accounting	Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. Understanding of good financial management principles. Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government
External audit	Knowledge of the role and functions of the external auditor and who currently undertakes this role. Knowledge of the key reports and assurances that external audit will provide. Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken
Risk management	Understanding of the principles of risk management, including linkage to good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members and of the audit committee.
Counter fraud	An understanding of the main areas of fraud and corruption risk to which the organisation is exposed. Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption. Knowledge of the organisation's arrangements for tackling fraud.
Values of good governance	Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff. Knowledge of the whistleblowing arrangements in the authority.

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

Knowledge area	Details of supplementary knowledge
Accountancy	Professional qualification in accountancy
Internal audit	Professional qualification in internal audit
Risk management	Risk management qualification. Practical experience of applying risk management. Knowledge of risks and opportunities associated with major areas of activity.
Governance and legal	Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law.
Service knowledge relevant to the functions of the organisation	Direct experience of managing or working in a service area similar to that operated by the authority. Previous scrutiny committee experience.
Programme and project management	Project management qualifications or practical knowledge of project management principles.
IT systems and IT governance	Knowledge gained from management or development work in IT.

CORE SKILLS

Skills	Key elements
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side tracked by detail.
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations. Challenging performance and seeking explanations while avoiding hostility or grandstanding.
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility.
Able to balance practicality against theory	.Able to understand the practical implications of recommendations to understand how they might work in practice.
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc.
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity.
Meeting management skills	Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.

This page is intentionally left blank

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 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

21 September 2018

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

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

July 2019

Annual Statutory Financial Statements for the year ending 31 March 2019
Auditor Report – Financial Standards
Annual Governance Statement
Internal Audit and Delegated Service Annual Report 2018/19
Internal Audit Risk Assessment and Plan 2019/20
Corporate Risk Report

Contact Points

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

Specific Contact Points for this report

Simon Lewis, Committee Officer
Tel: 01905 846621
Email: slewis@worcestershire.gov.uk

Background Papers

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

Agenda and Minutes of this Committee from December 2005 onwards

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

COMMISSIONING

Recommendations

- 1. The Chief Financial Officer recommends that the issues arising from internal audits on commissioning issues are noted.**

Purpose of Report

2. At its meeting on 8 December 2017 the Committee considered, as part of the routine internal audit progress report, the outcome of an audit of the Bromsgrove rail project (Minute no. 443 refers). It was requested that the Director of Economy and Infrastructure be invited to a future meeting to discuss the Committee's concerns about the original reporting of the costs of the scheme. At its meeting on 16 March the Committee requested that a more detailed summary of the findings of the audit review of the lessons learned report into the Evesham Abbey Bridge project should also be reported to the next Committee meeting (Minute no. 453 refers). This report provides a high level summary of the outcome of these audits as the basis for the Committee's deliberations and also summarises the results of three other related audits (contracting, procurement and Place Partnership) to give a more rounded picture of key governance, control and risk issues relating to commissioning and contracting activity generally.

Bromsgrove Rail

3. The County Council signed an agreement on the 29 April 2014 with the West Midlands Passenger Transport Executive (CENTRO) to jointly fund the Bromsgrove Railway Station Relocation Project, designed to generate economic benefits for the Local Community. Bromsgrove railway station was proposed to be relocated and the line from Barnt Green was to be electrified.
4. The original forecast cost for the entire project, as per the Cabinet approval in December 2013, was £17.4 million with Worcestershire County Council's contribution being £5.5 million, £1.5m from the Integrated Transport Block grant and £4m through prudential borrowing. In October 2015, further funding of £1.2m was approved by Cabinet to cover the anticipated additional costs that had been forecast. At the time of the audit the latest forecast cost to Worcester was £7.725 million.
5. The key issues arising from the review include:
 - The total projected cost of the project was £17.4m with Worcestershire funding £5.5m but the report to Cabinet was not clear that this was an open-

ended agreement and that the Council was responsible for at least 30% of all implementation costs, irrespective of any cost overruns.

- The Council has committed to paying costs associated with the project in different proportions for the development and implementation phases in line with the various agreements. The Cabinet report does not accurately reflect the agreements made. In addition, there is no evidence available to support how any of these cost-sharing proportions were arrived at. It has been suggested by the Project Manager that at one stage Centro were prepared to pay 100% of the costs, although, this view is not shared by the Programme and Commissioning Manager.
- Although the works have now been completed the final costs are still not known but the latest forecast of £7.725m suggests that the final costs will exceed the amounts approved by Cabinet of £6.7m. This increase in costs has not yet been reported to Cabinet.
- Within the original Business Case a Financial Appraisal was undertaken which demonstrated that the project should generate a surplus at the end of the 30 year period but this has not been re-worked yet to take into account increased costs and actual car park income now that the station has fully opened, although this is currently being worked on.

Evesham Abbey Bridge

6. This contract was signed on the 28 September 2012. The contract value was £3,692,098.34. A contract completion certificate was signed off on the 30th September 2014, this indicates an actual completion date of the 18th August 2014. Over the course of the contract 16 variations were logged with a combined value of £1,305,687. At the time of the audit 31 interim certificates have been issued and paid for the sum of £5,834,217.54.

7. The objective of the audit assignment was to review the report (Appendix) by the Director of Infrastructure and Environment on the lessons to be learnt and validate its accuracy and completeness. Review of the arbitration process and settlement of the final account is outside the scope of this audit as this was still ongoing. **Please note that the Appendix to this report contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

8. The audit 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 Internal Audit view is that the seriously under-priced bid exposed the absence of skills in commissioning and as such this project shows the risks in accepting under-priced tenders i.e. those which offer the contractor no or little financial margin.

Place Partnership

9. Place Partnership Limited (PPL) is the first multi-agency joint property vehicle of its kind. A new, private company wholly owned by a number of public sector bodies, including Worcestershire County Council, was formed in 2015 to deliver various

property services and to jointly manage the estate and property services of a number of local authorities.

10. Services provided range from strategic property management and technical services to asset, facilities and project management. For Worcestershire County Council (WCC), it is important that contract monitoring arrangements are robust to ensure that benefits, both financial and quality, originally identified are being achieved.

11. Issues identified during the audit included:

- Although performance levels in a number of areas have been unsatisfactory, at the time of the audit the Council had not utilised the formal processes, as detailed within the Service Agreement to seek the improvements required. However, the Council has now issued a notice of improvement.
- The Service Definitions and Key Performance Indicators in the Service Agreement are incomplete. Alternative KPI's have been informally agreed upon, but this change has not been formalised and incorporated into the Service Agreement.
- The financial level of savings should have been defined in the Service Agreement so that all parties were aware of these targets and could be held to account for them.
- Checks have not been conducted periodically to ensure that the appropriate insurances are held to the appropriate levels as outlined in the Service Agreement.

12. The Council needs to ensure that for all contracts service definitions and KPIs are agreed before contract commencement and are included in the formal agreement.

Procurement and Contract Management audits

13. These two audits, which are currently being finalised, considered the end to end procurement process and the effectiveness of contract monitoring arrangements. The contract management work focussed on arrangements which are the responsibility of strategic commissioners within individual directorates.

14. Areas of good practice identified include:

- Useful market intelligence is obtained to inform procurement plans and specifications (market share, key players and service benchmarks);
- Although some anomalies were noted in general detailed testing confirmed the majority of processes from pre-bid assessment to award followed the Procurement Code, including scrutiny and moderation where necessary;
- A checklist exists and is helpful in managing key activities and particularly large or complex procurements;
- Exemptions were adequately supported, with evidence of challenge, justification and Strategic Procurement Manager approval;

- Retrospective orders are monitored and targeted action was being planned to hold managers to account.
- There was evidence of good engagement between WCC officers and contractors with performance being challenged where appropriate.
- Where performance data was obtained from the contractor, there was evidence that this was verified for accuracy.
- Appropriate Key Performance indicators had been established and were documented within contracts.

15. However, a number of non-compliances were noted on specific contracts / purchases. These tended to be specific to the contract involved but general themes arising from the two audits included:

- Some contracts / contract variations had been signed retrospectively.
- Compliance with insurance requirements specified in the contract not being checked.
- Safeguarding checklists need expanding to capture the Council officer responsible for completion and date.
- The Commercial Contracts Officer checklist should capture overall confirmation of assurance that related external funding or legislative requirements for items being procured have been met at the appropriate gateway stage.
- Evaluation scores, including pricing should be signed and dated by at least two members of staff.
- A process requires implementing to finalise contracts more promptly and copy to the Commercial Team, with timescales set to monitor outstanding items and escalate to management.

16. The underlying issues are that procedures need to be tightened and in particular overall guidance regarding contract management needs to be made available to officers managing contracts. Although some training courses and workshops are made available attendance on these is not mandatory.

Conclusion

17. Sound commissioning and contract management arrangements are fundamental to achieving the Council's objectives, delivering quality services and ensuring value for money is obtained.

18. The report to Cabinet on the Bromsgrove project did not clearly set out the financial implications of the project and did not reflect the agreements made with partners. The key issues on the Evesham project were the Contractor's seriously under-priced bid and a skills deficit within the Council 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. It also exposes the need for further skills development particularly around business case development and tender evaluation.

19. It is important that contract monitoring arrangements are robust to ensure that benefits, both financial and quality, originally identified are being achieved and contractors held to account for poor performance. The audits identified a range of non-compliances and need for additional guidance and support, whilst some non-compliance is inevitable given the scale of procurement activity within the Council, the audits indicate that improvements in processes and overall levels of compliance are required.

20. The audits taken together with known issues arising from other significant contracts (Liberata) suggest that more guidance, support and training (particularly around service specification, business case development and tender evaluation) and better quality assurance / compliance monitoring is required. Making attendance at training mandatory could be considered.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 846942

Email: mhudson@worcestershire.gov.uk

Supporting Information

- Appendix – Evesham Abbey Bridge – lessons learnt. (**Exempt information – Salmon pages**)

Background Papers

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

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank