

# Agenda

## Audit and Governance Committee

**Friday, 12 March 2021, 10.00 am**  
**Online only**

### Notes

Due to the current Covid-19 pandemic Worcestershire County Council will be holding this meeting in accordance with the relevant legislative arrangements for remote meetings of a local authority. For more information please refer to: Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

Please note that this is a public meeting, conducting remotely by videoconferencing between invited participants and live streamed for general access via a link on the Council's website to the Council's Youtube [channel](#).

The Agenda papers and background papers can be accessed electronically on the Council's website. Members of the public and press are permitted to report on the proceedings.

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 846621 or by emailing [democraticServices@worcestershire.gov.uk](mailto:democraticServices@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 3<sup>rd</sup> party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

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

### WHAT MUST I DO WITH A DPI?

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

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

### WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

### WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

### DON'T FORGET

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

## **Audit and Governance Committee**

### **Friday, 12 March 2021, 10.00 am, Online**

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

### **Agenda**

<b>Item No</b>	<b>Subject</b>	<b>Page No</b>
1	<b>Apologies and Named Substitutes</b>	
2	<b>Declarations of Interest</b>	
3	<b>Public Participation</b> <i>Members of the public wishing to take part should notify the Democratic Governance and Scrutiny Manager (Interim Monitoring Officer) 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, 11 March 2021). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 4 December 2020. (previously circulated)	
5	<b>Internal Audit Progress Report</b>	1 - 10
6	<b>Internal Audit Plan 2020/21 to 2022/23 - 2021/22 Focus</b>	11 - 28
7	<b>External Auditor - Annual Audit Letter 2019/20 and 202/21 Progress Report and Sector Update</b>	29 - 70
8	<b>Income Management</b>	71 - 74
9	<b>Risk Management Update</b>	75 - 76
10	<b>Statutory Accounts 2020/21 progress, accounting policies and estimates</b>	77 - 90
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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

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

Date of Issue: Thursday, 4 March 2021

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## **AUDIT AND GOVERNANCE COMMITTEE**

### **12 MARCH 2021**

## **INTERNAL AUDIT PROGRESS REPORT**

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### **Recommendations**

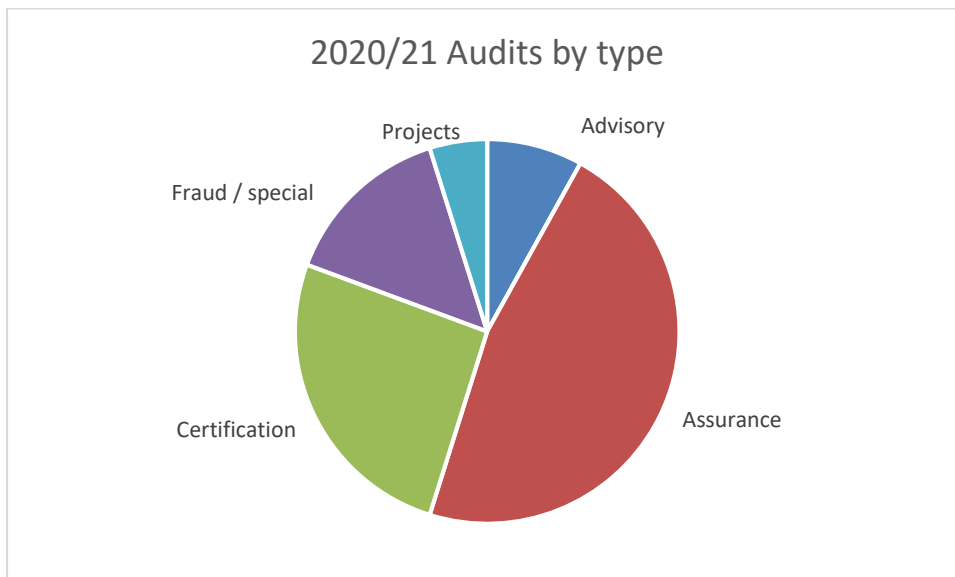
- 1. The Chief Internal Auditor recommends that internal audit progress to date be noted.**

### **Background**

2. The role of the Council's Internal Audit service is to enhance and protect organisational value by providing independent assurance, advice and insight into the Council's risk management, governance, internal control, and fraud prevention processes. This report provides an update on activity to February 2021 and the plan for the remainder of the year.

### **Audit and compliance 2020/21**

3. We have 62 work items in the 2020/21 plan; several audits have been moved into 2021/22 in agreement with operational managers. This movement into the new year reflects operational availability, internal audit resource and the continued impact of the pandemic on working arrangements. Detailed analysis is given in Appendix 1.



4. We are planning to have completed 29 assurance audits by the end of the year, with the current state given in the table below. This provides a reasonable spread of activity and will provide sufficient coverage for the provision of a year-end assessment.

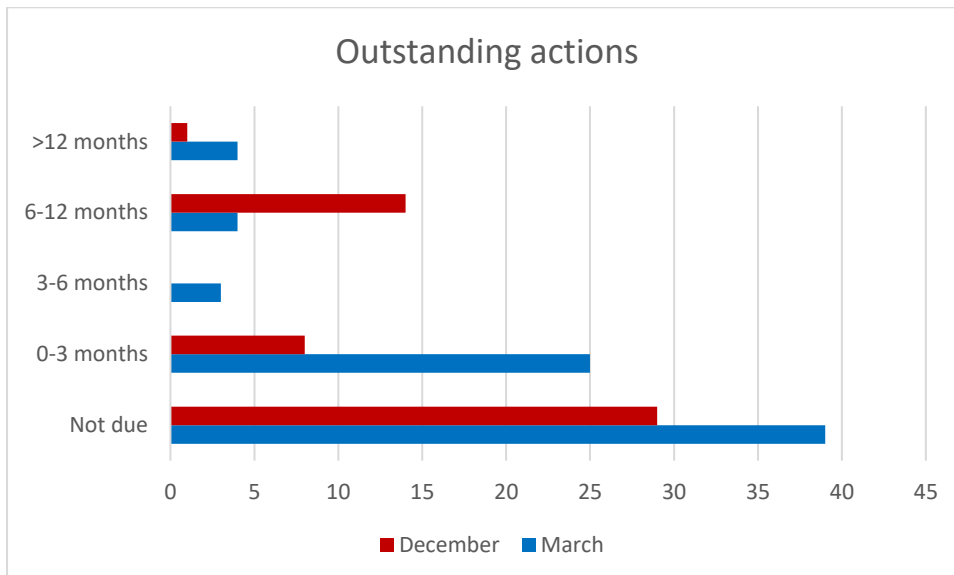
Audit State	Number		
Draft – engagement has not commenced	7		
Open - ToR issues / engagement in progress)	11		
Complete – fieldwork finished / report issued	11	Substantial assurance	8
		Moderate assurance	1
		Limited assurance	2
<b>TOTAL</b>	<b>29</b>		

5. The 7 planned audits are all for schools and we are trialling a self-assessment schools audit process which supports the remote auditing approach by enabling the provision of evidence electronically. Audit staff review and test against this evidence, followed up by meetings and interviews with key staff.

6. A limited assurance rating has been provided to Comberton Primary School. An action plan has been agreed with the school management team.

### Audit actions update

7. Audit actions are tracked, and we make regular contact with operational managers to follow up progress. We currently have 20 audits with 75 open actions, 36 of which are overdue. The graph below gives analysis of open actions, with the previous reporting period included for comparison (the December position is the top bar, the position at the end of February the bottom bar).



8. There has been an increase on the December reported position, with 3 more actions now over 12 months overdue. The significantly overdue actions are all related to substantial assurance audits and none of the actions relate to fundamental findings. We continue to work closely operational teams to understand delays in application of findings and to close these actions. Where the actions have been considerably delayed, we are proposing to re-audit if we do not receive assurance that actions will be implemented by the end of the financial year. Further detail is given in Appendix 2.

## **Anti-Fraud and Special Investigations**

9. We continue to receive calls on the fraud hotline. None of the calls have resulted in any further action being required.

10. We are also working with operational managers to identify key data sets which can be analysed on a regular basis to understand and identify activity trends and exceptions which may indicate fraudulent activity. These data sets include, for example, procurement card transactions to analyse spend and supplier activity.

11. As part of our engagement with the National Fraud Initiative key data sources have been uploaded to a national database and analysed to identify potential fraudulent transactions at local and national levels. Potential fraudulent matches have been returned and we are working with operational teams to evaluate matches.

12. We have responded to a consultation from the Cabinet Office, who manage the National Fraud Initiative, to extend the prevention and detection elements of the Initiative. We are supportive of this approach.

## **Advisory services**

13. Alongside day to day advisory activities we are currently supporting the Place Partnership Exit process and IT Digital Strategy.

14. We are also evaluating the current process for Internal Audit engagement with the Council's energy procurement arrangements, as requested by Overview and Scrutiny Performance Board.

## **Grant certifications**

15. Our grant certification work supports the Council in ensuring that money claimed from government agencies is correctly accounted for and we work closely with operational teams to deliver this. 11 grants have been certified as accurate to date, with 5 further due to be signed off (we are waiting for confirmation from the business that all of these will need sign off in this financial year).

## **Staffing**

16. We have successfully recruited 3 Internal Audit Business Partners who will all be in post by early April. The new starters provide a range of experience from public sector, external audit, and the private sector.

17. Unfortunately, the applicant appointed to the Audit and Compliance Manager has withdrawn his acceptance as he has taken another role. He was not due to start with us until June, so we have time to consider options.

## **Audit plan to the end of the year**

18. Our focus over the remainder of the year will be completing the audits currently underway.

## **Contact Points**

### Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

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Michael Hudson, Chief Financial Officer

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## **Supporting Information**

Appendix 1: Audit status

Appendix 2: Audit actions update

## **Background Papers**

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



## Audit status

Audit	Type	Rating	Current Milestone
2020/21 - 50 - Asset management controls assurance	Advisory	Not assessed	Start Field Work
2020/21 - 12 - Place Partnership Exit	Advisory	Not assessed	Start Field Work
2020/21 - 65 - Key contract review	Advisory	Not assessed	Start Field Work
2019/20 - 70 - Financial Management Framework	Advisory	Not Applicable	End Audit
2020/21 - 11 - Corporate Governance - post COVID - Phase 1	Advisory	Not Applicable	End Audit
2020/21 - 41 - Crophorne -with-Charlton First	Assurance	Not assessed	
2020/21 - 45 - Elmley Castle First	Assurance	Not assessed	
2020/21 - 70 - Ombersley Endowed First	Assurance	Not assessed	
2020/21 - 72 - Pitmaston Primary	Assurance	Not assessed	
2020/21 - 79 - St George's C of E Primary School	Assurance	Not assessed	
2020/21 - 35 - Bewdley School & Sixth Form Centre	Assurance	Not assessed	
2020/21 - 68 - Millfields First	Assurance	Not assessed	
2020/21 - 95 - Value for Money	Assurance	Not assessed	Start Field Work
2019/20 - 04 - Travel and Subsistence: Officers & Councillors	Assurance	Not assessed	Start Field Work
2020/21 - 37 - Capital and Business Case Development	Assurance	Not assessed	Start Field Work
2020/21 - 67 - Long term agency and consultancy placements	Assurance	Not assessed	Start Field Work
2019/20 - 69 - North Bromsgrove High School	Assurance	Not assessed	End Field Work
2020/21 - 94 - ICT Risk Register Review	Assurance	Not assessed	End Field Work
2020/21 - 42 - Debt management	Assurance	Not assessed	Issue Draft Report
2020/21 - 29 - Corporate Governance - post COVID - Phase 2	Assurance	Not assessed	Issue Draft Report
2019/20 - 23 - Direct payments	Assurance	Not assessed	Issue Draft Report
2020/21 - 17 - St Mary's CoE Primary	Assurance	Not assessed	Issue Draft Report
2020/21 - 78 - St Barnabas CoE Primary	Assurance	Not assessed	Issue Draft Report
2019/20 - 72 - Malvern St Joseph's Primary	Assurance	Substantial Assurance	End Audit
2019/20 - 12 - System administration	Assurance	Substantial Assurance	End Audit
2020/21 - 20 - Parkside Middle School	Assurance	Substantial Assurance	End Audit
2020/21 - 28 - Beoley First	Assurance	Substantial Assurance	End Audit
2020/21 - 80 - Sytchampton Endowed Primary	Assurance	Substantial Assurance	End Audit

<b>Audit</b>	<b>Type</b>	<b>Rating</b>	<b>Current Milestone</b>
2019/20 - 51 - Pensions investment	Assurance	Substantial Assurance	End Audit
2020/21 - 91 - Financial Forecasting	Assurance	Substantial Assurance	End Audit
2020/21 - 38 - Chawson First	Assurance	Substantial Assurance	End Audit
2020/21 - 22 - Blessed Edward Catholic College	Assurance	Moderate Assurance	End Audit
2020/21 - 40 - Comberton Primary	Assurance	Limited Assurance	End Audit
2020/21 - 18 - St Egwin's CE Middle	Assurance	Limited Assurance	End Audit
2020/21 - 04 - COVID Bus Services Support Grant	Certification	Not assessed	
2020/21 - 24 - Track and Trace Funding Grant	Certification	Not assessed	
2020/21 - 34 - Basic Needs Grant	Certification	Not assessed	
2020/21 - 26 - Transport to School (post COVID) Grant	Certification	Not assessed	
2020/21 - 93 - Troubled Families Quarter 4	Certification	Not assessed	
2019/20 - 61 - Southern Link Road	Certification	Certified	End Audit
2020/21 - 01 - Disabled Facilities Grants (DFG)	Certification	Certified	End Audit
2020/21 - 02 - Youth Justice Grants	Certification	Certified	End Audit
2020/21 - 05 - Growth Hub	Certification	Certified	End Audit
2020/21 - 07 - Local Transport Block Funding	Certification	Certified	End Audit
2020/21 - 08 - Bus Subsidy Ring Fenced Grant	Certification	Certified	End Audit
2020/21 - 09 - Troubled Families Quarter 1&2	Certification	Certified	End Audit
2020/21 - 10 - Southern Link Road	Certification	Certified	End Audit
2020/21 - 16 - Blue Badge Scheme	Certification	Certified	End Audit
2020/21 - 25 - WCF Set-Up Costs - Tranche 1	Certification	Certified	End Audit
2020/21 - 92 - Troubled Families Quarter 3	Certification	Certified	End Audit
2020/21 - 23 - School based	Fraud / special	Not Applicable	Issue Draft Report
2020/21 - 88 - Fraud Awareness Report	Fraud / special	Not Applicable	Start Field Work
2020/21 - 90 - NFI Data Matching Jan 2020	Fraud / special	Not Applicable	Start Field Work
2020/21 - 14 - Fraud Hotline	Fraud / special	Not Applicable	End Audit
2020/21 - 03 - School based	Fraud / special	Not Applicable	End Audit
2020/21 - 85 - NFI Data Upload 2020	Fraud / special	Not Applicable	End Audit
2020/21 - 69 - National Fraud Initiative - Download of historical data	Fraud / special	Not Applicable	End Audit
2020/21 - 15 - School based	Fraud / special	Not Applicable	End Audit

<b>Audit</b>	<b>Type</b>	<b>Rating</b>	<b>Current Milestone</b>
2020/21 - 13 - School based	Fraud / special	Not Applicable	End Audit
2020/21 - 86 - Internal Website Development	Projects	Not Applicable	Final Report
2020/21 - 89 - Continuous Auditing	Projects	Not Applicable	End Audit
2020/21 - 84 - Schools Newsletter - Dec 2020	Projects	Not Applicable	End Audit

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## Audit actions

	Cleared	Not due	0-3 months late	3-6 months late	6-12 months late	>12 months late
<b>Substantial Assurance audits</b>						
Approval of development	2				2	1
IT cloud arrangements	1		1			
HR Strategy / policy development and compliance	9		1			
Appointees and deputies	3					2
Malvern St Joseph's Primary School	5	2				
Liquid Logic Project						1
Pensions investment		1				
Beoley First School	4	5				
Chawson First School		3	3			
St Barnabas CoE Primary School	2	2	1			
Sytchampton Endowed Primary School	3	5	3			
<b>Moderate Assurance audits</b>						
Payroll	5				1	
IT inventory		4				
IT legacy systems	1	2				
Wolverley High School	14		2			
Blessed Edward Catholic College	1	3	5			
<b>Limited Assurance audits</b>						
Governor support and training - thematic review	2		4		1	
St Egwin's Middle School	6	2	3	3		
Comberton Primary	2	5				
<b>Advisory audits</b>						
Financial management framework	8	5	2			
	68	39	25	3	4	4

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**AUDIT AND GOVERNANCE COMMITTEE**  
**12 MARCH 2021****INTERNAL AUDIT PLAN 2020/21 TO 2022/23 – 2021/22**  
**FOCUS**

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**Recommendations**

1. **The Chief Internal Auditor recommends that the Internal Audit Plan focus for 2021/22 be approved.**

**Background**

2. The attached Internal Audit Plan, including the revised Audit Charter, details the approach we will take to provide controls assurance to the Council.

**Contact Points**Specific Contact Points for this report

Jenni Morris, Chief internal Auditor

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**Supporting Information**

Appendix – Internal Audit Plan 2020/21 to 2022/23 – 2021/22 Focus

**Background Papers**

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

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Internal Audit Plan 2020/21 to 2022/23  
2021/22 Plan focus

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## Executive summary

The Internal Audit plan represents a summary of the planned audit review areas which will be delivered during 2021/22. This is the second year of a three-year plan approved at the 13 March 2020 Audit and Governance Committee. The mission of Internal Audit is to assist the Council to appropriately manage the key risks to which the Council is exposed, and help improve the effectiveness of the Council's governance, risk management and internal control processes by providing risk-based and objective assurance, advice and insight.

The audit plan is based on a risk assessment largely aligned to the nine key themes that contribute to a Healthy Organisation model. The Plan will also cover fraud prevention, detection, and investigation work. Other factors that have driven the plan include direction by senior leadership to other risks linked to the Corporate Plan, an annual assessment of the financial controls and grant certification requirements.

The requirements of managing audits during the pandemic response have highlighted the need for agile audit planning. We have worked closely with operational managers to ensure that audits continue to be delivered effectively, utilising remote access, system-based research and self-assessment questionnaires to support the audit process. The annual plan is reviewed on a quarterly basis and the detailed focus for the quarter will be discussed and agreed with the Chief Officers' Group and the Audit and Governance Committee.

Fraud prevention, detection and investigation will continue to be a key focus, including increased training and communications for operational staff. We will continue to engage with the statutory National Fraud Investigation process from the Cabinet Office and will also be working to establish continuous monitoring of key areas to mitigate potential frauds.

## Team details

Name	Role	Contact details
Jenni Morris	Chief Internal Auditor	<a href="mailto:jmorris4@worcestershire.gov.uk">jmorris4@worcestershire.gov.uk</a>
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Richard Dalton	Audit Apprentice	<a href="mailto:rdalton@worcestershire.gov.uk">rdalton@worcestershire.gov.uk</a>
Kendra Hudson	Audit Apprentice	<a href="mailto:khudson1@worcestershire.gov.uk">khudson1@worcestershire.gov.uk</a>
Vacant	Audit and Compliance Manager	Tbc
Sally Gill	Finance Business Partner – Internal Audit	Tbc
Rakhee Gogna	Finance Business Partner – Internal Audit	<a href="mailto:rgogna1@worcestershire.gov.uk">rgogna1@worcestershire.gov.uk</a>
Kate Kenderdine	Finance Business Partner – Internal Audit	Tbc
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Noel Wallcroft	Risk Officer	<a href="mailto:nwallcroft@worcestershire.gov.uk">nwallcroft@worcestershire.gov.uk</a>
Audit team		<a href="mailto:auditteam@worcestershire.gov.uk">auditteam@worcestershire.gov.uk</a>
Fraud hotline		<a href="mailto:worcsfraudhotline@worcestershire.gov.uk">worcsfraudhotline@worcestershire.gov.uk</a>

## Plan focus 2021/22

The key areas of focus are based around the following themes:

- Assurance and risk assessment audits
- Financial controls assurance reviews
- Management requested assurance reviews and advisory support
- Individual school audits and schools-based thematic reviews
- Grant certifications
- Fraud and corruption prevention, detection and investigation
- Worcestershire Children's First assurance reviews and advisory support
- Worcestershire Pension Fund assurance reviews and advisory support

All audits will consider healthy organisation themes, the culture of the service and environmental issues.

The healthy organisation model is designed to strengthen the governance and assurance framework within the Council and drive the future risk assessment of the services and corporate policies. It is based on key themes which are crucial to the effective governance of the Council.

- Corporate governance
- Financial management
- Risk management
- Performance management
- Procurement and commissioning
- People management
- Programme and project management
- IT and cyber security
- Asset management

The model is assessed against standard questions to ensure consistency.

Following successful recruitment in 2020/21 our resource availability for 2021/22 is 1,000 days. We will continuously review our available resource to ensure that it is enough to provide the required level of assurance to the Council and will work closely with teams across Financial Services to ensure delivery. In 2021/22 just under two thirds of our available days are allocated leaving contingency for audit areas identified as part of the healthy organisation and controls' assurance work, additional areas requested by management and special investigations, with support from the Risk and Assurance team as required.

We will continue to use Worcestershire Internal Audit Shared Services (WIASS) to support our IT audit work.

Contact: Jenni Morris, Chief Internal Auditor  
[jmorris4@worcestershire.gov.uk](mailto:jmorris4@worcestershire.gov.uk)

Area of coverage	Brief description	Management lead
<b>Assurance and risk assessment audits</b>		
Covid response arrangements	Continuing our work to assure the Council in its arrangements to manage the Covid response.	Paul Robinson, Chief Executive
Democratic and governance	Following recommendations from phase 1 of the Covid governance assurance work we will work with Democratic Services to ensure effective democratic and governance arrangements	Assistant Director Legal Services – Abe Ezekiel Assistant Director Transformation and Change – Jonathan Fitzgerald-Guy
Transport services, external and internal management and reporting	The procurement, provision and reporting relating to transport services provided by the Council, with a specific focus on the provision of services to Worcestershire Children First and control over financial commitments and budgeting.	Strategic Director of Economy & Infrastructure – John Hobbs
Worcestershire Children First contract management	Reviewing the contract management arrangements in place and ensure that services are being provided as per the contract	Strategic Director of People - Paula Furnival
Adult social care working with people	An evaluation of the current process including commissioning of care, placement outcomes and financial management	Strategic Director of People - Paula Furnival
Digital strategy implementation	Advisory and assurance work to support the implementation of the digital strategy. This will include a range of focussed audits and project advice and support	Assistant Director for IT and Digital – Sandra Taylor
Risk management	Reviewing the implementation and embedding of the revised risk culture in the Council.	Chief Finance Officer - Michael Hudson
Insourced services – advisory and assurance support	To include Place Partnership, Liberata and Babcock insourcing process and post insourcing review as appropriate	In line with service area
Starters and leavers process	Consideration of the effectiveness of the starter and leaver process. End to end process to include HR and IT.	Assistant Director HR – Richard Taylor Assistant Director for IT and Digital – Sandra Taylor
HR reviews to be determined	Developments during the year will determine the detailed area, but likely to include total reward, changes to working practices and organisational culture	Assistant Director HR – Richard Taylor
<b>Financial control assurance reviews</b>		

<b>Area of coverage</b>	<b>Brief description</b>	<b>Management lead</b>
Financial resilience	Reviews to ensure the financial resilience of the Council, including reserves management, financial planning, delivery of efficiencies and financial savings targets	Chief Finance Officer - Michael Hudson
Treasury management and the prudential code	Ensuring our treasury management is meeting legislative requirements and maximising the returns delivered on our investments.	Chief Finance Officer - Michael Hudson
Financial Instruments to generate money for commercialisation	Ensuring that the investment options meet meeting legislative requirements and maximising the returns delivered on our investments. This will explore the options available to consider alternative funding such as Bonds.	Chief Finance Officer - Michael Hudson
General Ledger Maintenance - CP / e5 upgrades	Ensuring the upgrade process is effective and lessons learned post upgrade.	Chief Finance Officer - Michael Hudson
<b>Individual school and school thematic reviews</b>		
Schools qualitative reviews	A rolling programme of individual and school themed audits will be carried out across a range of schools based on a risk assessment. Schools are audited in line with a standard schools' audit programme, which includes an element of self-assessment.	WCF Interim Chief Executive – Tina Russell / Chief Finance Officer - Michael Hudson. Head Teachers and Governors
Governor support and training thematic review	Limited assurance report follow-up delivery of actions and process improvements	Director of Education and Early Help – Sarah Wilkins
St Egwin's Middle School	Limited assurance report follow-up delivery of actions and process improvements	Head Teacher & Governors
<b>Grant certifications</b>		
Grant certifications	Certification of grants for government bodies	Various, as appropriate
<b>Worcestershire Children First assurance and risk assessment audits</b>		
Dedicated schools grant and high needs block	Budget planning, forecasting and management of pressures	WCF Director of Resources – Phil Rook
Liquid Logic and Controcc post implementation review	Evaluation of the effectiveness of the implementation of the case management and financial systems	WCF Director of Resources – Phil Rook

<b>Area of coverage</b>	<b>Brief description</b>	<b>Management lead</b>
Placement process for children in care	Reviewing the arrangements for placing children in care	WCF Interim Chief Executive – Tina Russell
<b>Worcestershire Pension Fund assurance and risk assessment audits</b>		
Pensions investment reviews	Scope to be determined, to include work of pooled arrangements	Chief Finance Officer - Michael Hudson
Pensions administration reviews	Scope to be determined following transfer of function and key personnel changes	Chief Finance Officer - Michael Hudson
<b>Fraud and special investigations</b>		
Fraud and special investigations	Prevention, detection and investigation of allegations and identified risk areas. All fraud allegations reported to the team will be subject to an initial triage process to determine the extent of any further investigation.	Various, as appropriate
National Fraud Investigation	Provision of key data sets to the Cabinet Office at regular intervals. Support for operational teams to investigate notified matches.	Identified NFI leads
Continuous data monitoring	Identification of key data sets to enable regular trend and matching analysis to assist in fraud prevention and risk mitigation	Internal Audit management team
<b>Management and administration</b>		
Communications – regular updates and newsletters	To include termly schools’ newsletters and quarterly organisational updates.	Internal Audit management team
Contingency	There is always a need to plan for some contingency due to additional ad hoc work, such as fraud investigations, additional assurance or overruns. This will be monitored during the year and discussed with the CFO and SLT and reported to the Audit and Governance Committee.	SLT / Chief Internal Auditor / Audit & Governance Committee
Training	Provision has been made for the team’s development around professional and behavioural competencies, as well as continued development of the Internal Audit system.	Internal Audit management team
Management	There will be a need for the Internal Audit management team to produce reports, support a range of corporate meetings / projects, as well as undertake management tasks such as appraisals. This time	Internal Audit management team



Internal Audit Plan 2020/21 to 2022/23  
2021/22 Plan focus

Area of coverage	Brief description	Management lead
	will be monitored and discussed with the CFO and SLT and reported to the Audit and Governance Committee	

## Audit charter

### 1. Introduction

The Council has committed to set up and maintain a permanent, independent, and objective internal audit function to operate across the Council. This Charter defines the purpose, objectives, and authority of the function.

### 2. Mission

The mission of Internal Audit is to assist the Council, elected members, Strategic Directors, and officers to appropriately manage the key risks to which the Council is exposed, and help improve the effectiveness of the Council's governance, risk management and internal control processes by providing risk-based and objective assurance, advice and insight.

### 3. Objectives

The Internal Audit service:

- Provides independent and objective assurance and advisory activity.
- Adds value to the Council's operations and governance.
- Helps the Council to accomplish its activities by evaluating and improving the effectiveness of risk management, control and governance processes, taking into accounts public section internal auditing standards and guidance.
- Ensures outcomes of the audit programme are designed to provide senior management, elected members and the WCF Board with assurance that the Council is effectively governed and to provide guidance on improvements where required.
- Follows an identical audit approach for Worcestershire Children First (WCF) and maintain a separate audit plan reportable to their Board.
- Delivers audit activity as required by the Accounts and Audit (England) Regulations 2015.

### 4. Authority

To ensure the authority of the Internal Audit function the following arrangements are in place:

- The function is headed by the Chief Internal Auditor, who reports administratively to the Chief Financial Officer.
- The Chief Internal Auditor maintains regular contact with Leadership Team, including regular meetings with the Chief Executive, Strategic Directors, and the Leader of the Council.
- The Chief Internal Auditor attends and reports to the Audit and Governance Committee, and Strategic Leadership Team.
- The independence of the role is further supported by the arrangements for appointment and dismissal being confirmed by the Chief Executive and Chairman of the Audit and Governance Committee.

The Council cannot place any restrictions on the work of Internal Audit and staff engaged on audit work, either directly by the Council or by one of our partners, are entitled to receive and have access to whatever information or explanations they require to fulfil their responsibilities to the Council. Internal Audit have full, free and unrestricted access to records, personnel or property of the Council; relevant security and privacy arrangements will be complied with.

### 5. Independence and objectivity

It is vital that the Internal Audit service remains independent and that the function remains free from all conditions that threaten the ability of the internal auditors to carry out their responsibilities in an unbiased manner. This includes audit selection, scope procedures, frequency, timing, and report content. Details of any impairment, in fact or appearance, will be reported by the Chief Internal Auditor to the Chair of the Audit and Governance Committee.

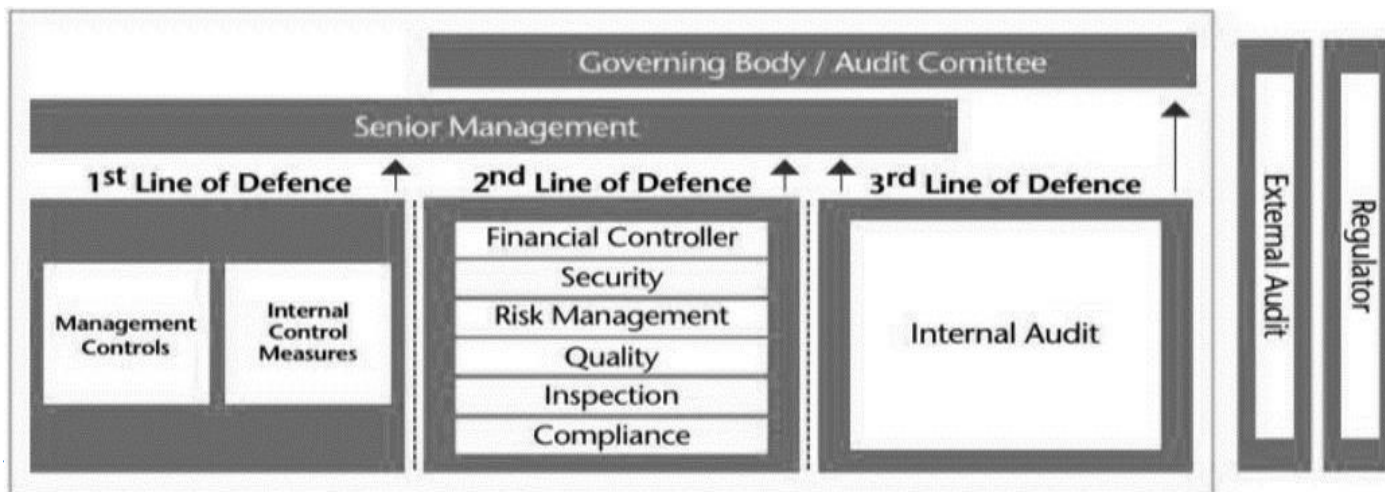
To ensure this independence and objectivity internal auditors provide advisory rather than decision making services, remaining independent of the activities we audit and rotating staff across audits.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or processes being examined
- Make balanced assessments of all available and relevant facts and circumstances
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

### 6. Organisational Status

The assurance levels are considered in conjunction with the Three Lines of Defence model.



The Three Lines of Defence model explains the relationship between the functions involved in assurance:

- 1<sup>st</sup> line of defence are the functions that own and manage risks
- 2<sup>nd</sup> line are the

- functions that oversee or specialize in the compliance or management of risk
- 3<sup>rd</sup> line are the functions that provide independent assurance.

## 7. Audit Approach

Internal Audit work will normally include, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments of the adequacy and effectiveness of governance, risk management, and control processes. Assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed
- The actions of the Council's officers and elected members comply with our policies, procedures and applicable laws, regulations and governance standards
- Operations or programs are being carried out effectively and efficiently

## 8. Responsibilities of Internal Audit and Officers

Internal Audit is responsible for operating under the policies established by the Council in line with professional standards and best practice. We conduct our work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by the Public Sector Internal Audit Standards (PSIAS). We ensure that any documentation and evidence provided is secured and confidentiality is always maintained.

Officers are responsible for agreeing the scope of internal audit work and for implementing agreed actions. The Strategic Leadership Team supports Internal Audit and ensures there is direct access and freedom to report findings and actions. Management will notify Internal Audit of any changes to key systems, legislation, processes, or staff to enable us to consider any potential impact on the audit plan.

Deliverables and the timeline for the audit will be agreed as part of the terms of reference. If information is not provided to agreed milestones, we will agree revisions if appropriate. If however information is still not provided we reserve the right to issue a report

specifying the impact of gaps in evidence and the assurance level provided will reflect this.

## 9. Planning and reporting

Internal Audit produce an annual plan in consultation with senior managers and considering the Council's aims, strategies, key objectives and associated risks. The strategic plan gives a three-year overview of activity and enables forward planning for identified changes and is supported by an annual plan which includes contingency allocation to allow us to respond to changing conditions and requests from managers. The plan is approved annually by the Audit and Governance Committee. The plan is reviewed regularly, and any changes discussed with the Chief Financial Officer. These changes are reported to the Audit and Governance Committee as part of our reporting schedule. The Chief Internal Auditor reports progress on the audit plan and action implementation to the Audit and Governance Committee. An annual report is provided giving an opinion on the Council's system of internal control. This opinion forms part of the Annual Governance Statement.

Delivery of Internal Audit activity is governed by our Internal Audit Engagement Standards, which ensure:

- Terms of reference are agreed in advance for each audit to ensure that all parties agree what the audit will cover. Reasonable notice is given about the start and process of each audit and we will work to minimise disruption to operational teams. We reserve the right to make unannounced visits if significant control risks are identified.
- Audit reports include an opinion on the adequacy of controls in the area reviewed, detail actions for improvement and agree the allocation of management responsibility and timeline for delivery with the relevant manager. Reports are agreed with the manager, usually following a presentation of findings to assistant director or operational manager and copied to the Strategic Director. Reports with financial implications are sent to the Chief Financial Officer. Audits resulting in a limited assurance opinion are reported to the Strategic Leadership Team and Leader of the Council.

Assurance audits will give an assurance level assessment providing an indication of the relative impact of the service on the Council's overall governance and effectiveness. Audit assurance levels are:

Full assurance	The system of internal control meets the Council's objectives. All the expected system controls tested are in place and are operating effectively. Future audits are undertaken in line with standard planning
Substantial assurance	There is a generally sound system of internal control in place designed to meet the Council's objectives. Weaknesses in the design of controls or inconsistent application of controls in a small number of low risk areas put the achievement of a limited number of system objectives at risk. The resulting risk is not significant. Future audits are undertaken in line with standard planning.
Moderate assurance	The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively, increasing the risk that the system does not meet the Council's objectives. An improvement

Limited assurance review audit is undertaken within 3 years. Weaknesses in the design and / or inconsistent application of controls puts the achievement of the Council's objectives at risk in many areas reviewed. The resulting risk is significant. An improvement review audit is undertaken within 12-18 months.

### 10. Healthy Organization Framework

As part of the development and continuous improvement of the function we use a healthy organisation framework to provide an objective assessment of the management control framework or "health" of the Council that supports the way we work. The framework comprises corporate themes:

- Corporate governance
- Financial management
- Risk management
- Performance management
- Procurement and commissioning
- People management
- Programme and project management
- IT and cyber

### 11. Performance Measures

It is important as part of their ongoing assessment of the governance arrangements for the Council that the Strategic Leadership Team, Members and WCF Board can assess the quality and performance of both the Internal Audit Service and the improvement output and response from the services audited. Performance will be subject to quarterly monitoring and review by both the Audit and Governance Committee and the WCF Board.

The following are proposed indicators and targets, and will develop and refine as the Internal Audit function matures:

Performance Indicator	Target
All 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%

## 12. Quality assurance

All audit documentation is subject to internal review, to ensure consistency and clarity of reporting. Internal Audit are subject to quality standards in line with PSIAS standards. We will carry out External Quality Assessment every 3 years to ensure that these standards are met. We are planning to carry out an assessment in 2021/22.

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**AUDIT AND GOVERNANCE COMMITTEE**  
**12 MARCH 2021****EXTERNAL AUDITOR - ANNUAL AUDIT LETTER 2019/20,  
AND 2020/21 PROGRESS REPORT AND SECTOR UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends that:**
  - a) **The Annual Audit Letter 2019/20 as set out in Appendix 1 be noted;**
  - b) **The Committee considers whether it wishes to receive any further reports on information contained in the Letter;**
  - c) **The Committee considers whether there are any issues arising from the Letter to draw to the attention of the Council; and**
  - d) **The content of the External Audit Progress Report and Sector Update as set out in the Appendix 2 be noted.**

**Summary**

2. Peter Barber, Director from Grant Thornton will attend the meeting to discuss two reports for committee consideration.

3. Grant Thornton is responsible for producing an Annual Audit Letter which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts. The Annual Audit Letter looks back over the 2019/20 year and summarises all of the reports and work the external auditors have undertaken and closes that year's audit. As such there are no new audit findings.

4. Additionally, a progress report for the 2020/21 external audit is also included.

**Contact Points**Specific Contact Points for this report

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## **Supporting Information**

- **Appendix 1** - The 2019/20 Annual Audit Letter for Worcestershire County Council
- **Appendix 2** – 2020/21 Worcestershire Count Council and Worcestershire Pension Fund External Audit Progress Report and Sector Update

## **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.

# The Annual Audit Letter for Worcestershire County Council and Pension Fund

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Year ended 31 March 2020

February 2021



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## Appendices

- A Reports issued and fees Worcestershire County Council
- B Reports issues and fees Worcestershire Pension Fund

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) and its subsidiary (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 2<sup>nd</sup> October 2020

## Our work

### Materiality

We determined materiality for the audit of the group's financial statements to be £11.8m, which is 1.5% of the group's gross expenditure. We determined materiality for the audit of the Council's financial statements to be £11.6m, which is 1.5% of the Council's gross expenditure. We determined materiality for the audit of the Pension Fund financial statements to be £26.3m, which is 1% of total net assets.

### Financial Statements opinion

We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 27 October 2020. We gave an unqualified opinion on the pension fund financial statements on 27 October 2020.

### Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

### Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 October 2020

### Certificate

We certified that we have completed the audit of the financial statements of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice on 1 February 2021.

## Working with the Council

The outbreak of the Covid-19 pandemic has had a significant impact on the normal operations of the Council and the group. This has been felt particularly in Adult and Children Services, however the Council has worked hard to ensure it remains financially sustainable.

The Council have adapted well to delivering in a remote environment, and we have worked with the finance team to deliver the audit under remote auditing arrangements. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

## Respective responsibilities

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

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

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

# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the group financial statements to be £11.8m, which is 1.5% of the group's gross expenditure. We determined materiality for the audit of the Council's financial statements to be £11.6m, which is 1.5% of the Council's gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We determined materiality for the audit of the Pension Fund's financial statements to be £26.3 million, which is 1% of the total net assets. We used this benchmark as, in our view, the users of the Pension Fund's financial statements are most interested in where the Fund has invested the monies necessary to cover future pension obligations

We also set a lower level of specific materiality of £13k for senior officer remuneration due to its sensitive nature.

We set a lower threshold of £600k for the group, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Financial Statements (Council)

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid- 19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to;</p> <p>Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</p> <ul style="list-style-type: none"> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for on our audit approach. No changes were made to materiality levels previously reported. The draft financial statements were provided on 5 June 2020;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose.</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>Our audit work has not identified any significant issues in respect of Covid-19 specific risks. The Council responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years. We are aware that nationally, this is one of the first set of draft financial statements produced and audited.</p>

# Audit of the Financial Statements (Council)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b>  <b>This risk relates to the Group and Authority</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>As part of our audit work we have:</p> <p>We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire Pension Fund.</p>	<p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>
<p><b>Management override of controls</b>  <b>This risk relates to the Group and Authority</b></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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals,</li> <li>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals,</li> <li>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration,</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of management override of controls.</p>



# Audit of the Financial Statements (Council)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b>  <b>This risk relates to the Authority only</b></p> <p>The Authority revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£510.3m at 31.3.20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• Evaluated the competence, capabilities and objectivity of the Council's valuation expert</li> <li>• Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• Engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation</li> <li>• Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>	<p>Our audit work has not identified any issues in respect of valuation of land and buildings.</p> <p>We included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding asset valuations at year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in the final valuation report. Officers reflected this in note 15.10 of the financial statements. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements. This is in line with other similar local authorities.</p> <p>The additional scrutiny in this area generated a significant volume of queries in this area, and officers were requested to provide further information on how assumptions used could be supported and were appropriate to the circumstances of the Authority. These were all resolved to a satisfactory conclusion. The work from our own valuation expert did not raise any concerns that need to be reported.</p>

# Audit of the Financial Statements (Council)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p><b>This risk relates to the Group and Authority</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£465 million in the Authority's balance sheet at 31.3.19) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtained assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>Our audit work has not identified any issues in respect of valuation of the net liability.</p>

# Audit of the Financial Statements (Council)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Preparation of group accounts</b></p> <p><b>This risk relates to the Group and the Authority</b></p> <p>Following the transfer of services to the wholly owned subsidiary Worcestershire Children First, the Authority now has a group structure that management believe is likely to require consolidation for the first time.</p> <p>There are a number of logistical challenges that need to be managed, ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the arrangements to provide the output of their work in accordance with the closedown timetable.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed consolidation procedures in place at the Authority, and the Authority's assessment of all entities over which the Authority has control or significant influence and the Authority's subsequent consideration whether or not to consolidate each entity within the group accounts;</li> <li>• Liaised formally with group auditors to enable us to make use of the outcomes of their audit (including their opinion) for our audit opinion on the Authority's group accounts; and</li> <li>• Agreed the final accounts consolidation back to audited financial statements for each subsidiary and joint venture within the group accounts.</li> </ul>	<p>Our audit work has not identified any issues in respect of the preparation of group accounts.</p>

# Audit of the Financial Statements (Pension Fund)

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b> The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to;</p> <ul style="list-style-type: none"> <li>Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and the reliability of evidence we can obtain to corroborate management estimates</li> <li>For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification if the instruments of trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.</li> <li>Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> <li>worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 17 May 2020;</li> <li>liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose.</li> <li>evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid 19 upon forecast cashflows</li> <li>evaluated whether sufficient audit evidence could be obtained using alternative approaches for the purposes of our audit while working remotely;</li> <li>Evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure</li> <li>evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as level 3 asset valuations;</li> <li>evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>Our audit work has not identified any issues in respect of Covid-19 specific risks. The Fund responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years. As explained on page 9 we have concluded that a material uncertainty does not exist in respect of property and infrastructure assets held by the Fund.</p>

# Audit of the Financial Statements (Pension Fund)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <p>Page 41  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 Pension Fund, mean that all forms of fraud are seen as unacceptable</p> <p>Therefore we do not consider this to be a significant risk for Worcestershire Pension Fund.</p>	<p>As part of our audit work we completed;</p> <p>We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire Pension Fund.</p> <p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>	<p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>
<p><b>Management override of controls</b></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</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals,</li> <li>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals,</li> <li>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration,</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our testing of estimates, judgements and journals have not identified any evidenced of management override of controls.</p>

# Audit of the Financial Statements (Pension Fund)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Level 3 investments</b></p> <p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> <li>• evaluated management's processes for valuing Level 3 investments</li> <li>• 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; to ensure that the requirements of the Code are met</li> <li>• independently requested year-end confirmations from investment managers and custodians</li> <li>• 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. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period</li> <li>• in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• tested revaluations made during the year to see if they had been input correctly</li> <li>• where available, reviewed investment manager service auditor report on design effectiveness of internal controls.</li> </ul> <p>As highlighted above, our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts. We identified that the management estimate of investment values at year end is £6.2m higher than more recently updated information. Given that our headline materiality is £26.3m, we are comfortable that these differences do not present a risk of material misstatement of the fair value of your investments. The differences identified do not indicate any weakness in management's arrangements for estimating investment values at year end.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the group's financial statements on 27 October 2020.

## Preparation of the financial statements

The draft financial statements were presented for audit to the agreed timetable on the 5 June 2020. The statements were supported, in the main, by good quality working papers and we received prompt responses to our queries, given the circumstances. This continues the positive trajectory of improvements in the quality of the accounts and working papers from previous years. The significant number of issues arising in respect of Property, Plant and Equipment this year is down, in no small part, to the complexities of your Asset Register.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit and Governance Committee on 2 October 2020. We identified no material errors or adjustments to the financial statements.

There were, however, significant amendments to the presentation of the notes in relation to Property, Plant and Equipment.. We have also raised recommendations for management as a result of our audit work, the most significant of which is included below;

- Officers should continue their focus on improving working papers. As in prior years PPE working papers remain those where greatest improvement is needed. Officers should give consideration to whether the current fixed asset register provides information in the most fit for purpose way to produce the disclosures in the financial statements and provide them with suitable management information.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in November 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 27 October 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Governance Committee on 2 October 2020.

We identified no material errors or adjustments to the pension fund financial statements. We have identified one adjustment of £10.3m that has resulted in a change to the Pension Fund's reported financial position for the year ended 31 March 2020. We also recommended a small number of other adjustments to improve the presentation of the financial statements.

## Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 28 January 2021.

## Other statutory powers

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

We have not exercised these powers during 2019/20.

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice on 1 February 2021.

# Value for Money conclusion (Council only)

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

As part of our Audit Findings report agreed with the Council in October 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.



# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Future Financial Sustainability</b></p> <p>Like many other similar local authorities, the financial outlook remains challenging. At Month 8, the Council was forecasting a £3.6 million overspend (1% of the budget). The main area of pressure remains within key demand led services in both adult and children services. In addition pressures have been identified in the current year as a result of the timing of the delivery of the proposed redesign efficiencies.</p> <p>We will:</p> <ul style="list-style-type: none"> <li>• review the Council's performance against budget for 2019/20</li> <li>• understand the future savings plans and the achievement of savings in 2019/20</li> <li>• review the robustness of assumptions in the latest MTFs.</li> </ul>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council have delivered a small deficit of £0.3m compared to a net budget requirement of £330m. This position was only achieved via close monitoring and appropriate management action in year to identify new savings and mitigations to compensate for the fact that not all savings as planned were achieved in year. In addition, it should be noted that this position was achieved with the planned use of reserves, which can only be used once. 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.</li> <li>• Whilst the final overall outturn was a £0.3m overspend, this masks overspends in the demand lead areas, although these were not as significant as in prior years. The most significant overspend related to adult services, who reported a £1.6m overspend on a budget of £126m. This compares to an overspend of £12.4m in the prior year. The overspend in adult services had been highlighted as part of the budget monitoring throughout the year, and therefore at outturn was in line with revised expectations, further demonstrating officers understanding of the pressures facing the budget and reporting them appropriately. Overspends have been mitigated by savings in other areas, most notably Community Services and Economy and Infrastructure.</li> <li>• Like many other local authorities, the funding for schools remains a significant challenge. The total schools balances position at year end was a net surplus of £1.4m, a reduction of £4.2m from the prior year. While the Council has plans in place to support the schools in deficit, this reflects the difficulties many schools are having in balancing their budgets.</li> <li>• Dedicated Schools Grant (DSG) continues to be an area for concern, with a cost pressure of £8.7m for high needs. Other areas of DSG funding have underspent to reduce this pressure, however, the net position finished at a £5.6m in-year deficit, increasing the cumulative deficit position to £6.2m. Officers are continuing to lobby central government for a sustainable solution, however at present this deficit represents a call on general fund balances or the need to find further savings from elsewhere in the budget to support this position.</li> </ul>	

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Future continued</b></p> <p><b>Financial</b></p> <p><b>Sustainability</b></p>	<ul style="list-style-type: none"> <li>The original savings target included in the 2019/20 budget was £23m. A further review identified additional growth of £5m was needed and this gave a revised target for savings of £28.1m, of which £15.8m has been achieved. (43.8% not achieved). Of the £12.3m not achieved £7.2m has been dealt with through resetting of the base budget in 2020/21, £3.8m of waste savings have been managed through the waste reserve, and the remaining £1.3m has been carried forward to the next financial year.</li> <li>The budget for 2020/21 was set in February 2020. The process considered the amount of income the Council was likely to receive, as well as considering the additional pressures on expenditure. The pressures of both pay and contract inflation were considered as well as the considerations for demand led growth. In addition, the achievability of savings plans was considered, and where appropriate these plans were rebased. Prior to the impact of Covid 19, the Council was predicting funding gaps of £8.2m and £15.8m in the years 2021/22 and 2022/23.</li> <li>The s151 officer has assessed the level of reserves as appropriate at 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 £76.3m in earmarked reserves. Removing balances relating to schools of £1.4m and a further £3.2m where the reserves could not be used to support spend, gives an earmarked position of £71.6m which could be used to support services if required. This equates to over 7 times the level of savings needed in 2020/21 and 22% of the budget requirement.</li> <li>Comparing these reserve balances with other County Council draft financial statements, Worcestershire is towards the bottom end of the scale, with only two other County Councils having a lower level of combined general fund and earmarked reserves (when excluding schools). This is demonstrated in the graph on the next page.</li> </ul>	

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions																																																				
<p><b>Future Financial Sustainability continued</b></p>	<div data-bbox="295 427 1518 986"> <p style="text-align: center;">Level of Reserves - Comparison across County Councils</p> <table border="1"> <caption>Approximate Reserve Levels by County Council</caption> <thead> <tr> <th>County Council</th> <th>Reserve Level (Estimated)</th> </tr> </thead> <tbody> <tr><td>Northamptonshire County Council</td><td>70,000</td></tr> <tr><td>Cumbria County Council</td><td>80,000</td></tr> <tr><td>Worcestershire County Council</td><td>90,000</td></tr> <tr><td>East Sussex County Council</td><td>95,000</td></tr> <tr><td>Cambridgeshire County Council</td><td>100,000</td></tr> <tr><td>Somerset County Council</td><td>105,000</td></tr> <tr><td>Buckinghamshire County Council</td><td>110,000</td></tr> <tr><td>Suffolk County Council</td><td>115,000</td></tr> <tr><td>Norfolk County Council</td><td>120,000</td></tr> <tr><td>Oxfordshire County Council</td><td>125,000</td></tr> <tr><td>Gloucestershire County Council</td><td>130,000</td></tr> <tr><td>Nottinghamshire County Council</td><td>135,000</td></tr> <tr><td>North Yorkshire County Council</td><td>140,000</td></tr> <tr><td>Leicestershire County Council</td><td>145,000</td></tr> <tr><td>Staffordshire County Council</td><td>150,000</td></tr> <tr><td>Warwickshire County Council</td><td>155,000</td></tr> <tr><td>West Sussex County Council</td><td>160,000</td></tr> <tr><td>Hertfordshire County Council</td><td>165,000</td></tr> <tr><td>Lincolnshire County Council</td><td>170,000</td></tr> <tr><td>Surrey County Council</td><td>175,000</td></tr> <tr><td>Derbyshire County Council</td><td>180,000</td></tr> <tr><td>Lancashire County Council</td><td>185,000</td></tr> <tr><td>Kent County Council</td><td>190,000</td></tr> <tr><td>Essex County Council</td><td>195,000</td></tr> <tr><td>Hampshire County Council</td><td>450,000</td></tr> </tbody> </table> </div> <p>Like many other similar local authorities, the financial outlook remains challenging. Prior to the impact of Covid 19, the Council was predicting funding gaps of £8.2m and £15.8m in the years 2021/22 and 2022/23. The impact of Covid-19 continues to be modelled on a regular basis, with the latest forecast suggesting that this would have an impact of £8.1m for 2020/21, which would need to be financed from a mixture of savings and transfers from reserves. The position remains under constant review, with officers committed to update the MTFP prior to the next budget setting round.</p>	County Council	Reserve Level (Estimated)	Northamptonshire County Council	70,000	Cumbria County Council	80,000	Worcestershire County Council	90,000	East Sussex County Council	95,000	Cambridgeshire County Council	100,000	Somerset County Council	105,000	Buckinghamshire County Council	110,000	Suffolk County Council	115,000	Norfolk County Council	120,000	Oxfordshire County Council	125,000	Gloucestershire County Council	130,000	Nottinghamshire County Council	135,000	North Yorkshire County Council	140,000	Leicestershire County Council	145,000	Staffordshire County Council	150,000	Warwickshire County Council	155,000	West Sussex County Council	160,000	Hertfordshire County Council	165,000	Lincolnshire County Council	170,000	Surrey County Council	175,000	Derbyshire County Council	180,000	Lancashire County Council	185,000	Kent County Council	190,000	Essex County Council	195,000	Hampshire County Council	450,000	<ul style="list-style-type: none"> <li>• While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</li> <li>• We have concluded that you had good arrangements in place to set a realistic and achievable budget for 2019/20.</li> <li>• We do, however, recognise that not all savings were delivered in 2019/20 and although the initial 2020/21 budget was predicated on a lower level of savings, Covid-19 has made reliable financial planning into the medium term more challenging.</li> <li>• We have concluded that the Council has responded appropriately to the impact of Covid-19 on its medium term financial planning. The Council recognises the inherent risk due to this and the combination of increased demand for services, increased unit costs, greater expectation and continued austerity. Whilst balances and reserves are adequate we note that Worcestershire County Council has less earmarked reserves that the majority of its peers.</li> <li>• Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.</li> </ul>
County Council	Reserve Level (Estimated)																																																					
Northamptonshire County Council	70,000																																																					
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# A. Reports issued and fees Worcestershire County Council

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

## Reports issued

Report	Date issued
Audit Plan	13 March 2020
Audit Findings Report	2 October 2020
Annual Audit Letter	February 2021

## Proposed final fees for the audit.

Audit fees	Proposed fee
County Council scale fee	£73,493
Additional proposed audit fee at planning stage	£17,650
<b>Total proposed audit fees (excluding VAT) at planning</b>	<b>£91,143</b>
Further additional fees proposed at completion	£13,750
<b>Total proposed audit fees (excluding VAT) on completion</b>	<b>£104,893</b>

The Worcestershire County Council Audit Plan presented in March included £17,650 of proposed additional fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid -19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £13,750 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £104,893, a breakdown of which is on the next page.

This further charge has not been entered into lightly, but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. We have been discussing this issue with PSAA over the last few months and not these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectations that audit standards remain high and of additional work needed across all audits.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	£4,500
- Certification of teachers' pension return	
<b>Non-Audit related services</b>	£12,500
-CFO Insights	

## Non- audit services

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

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

# A. Reports issued and fees Worcestershire County Council

## Breakdown of proposed final audit fee

Audit area	£	Reason for fee variation
<b>Scale fee</b>	73,493	
Pensions – valuation (IAS 19)	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,350	We have engaged our own audit expert – Wilks Head and Eve LLP and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.
New accounting standards/developments	1,800	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in.
Group accounts	3,000	Following the transfer of services to the wholly owned subsidiary for Worcestershire Children First, the Authority now has a group structure that management have assessed as requiring consolidation for the first time. This represents a significant and complex accounting transaction and therefore we deem this to represent a significant risk in 2019/20.
<b>Revised planning fee</b>	91,143	
Covid-19	13,750	<p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes;</p> <ul style="list-style-type: none"> <li>Revisiting planning – we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS 1 particularly in respect of material uncertainties.</li> <li>Management's assumptions and estimates – there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.</li> <li>Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA 260.</li> </ul>

## A. Reports issued and fees Worcestershire County Council

### Breakdown of proposed final audit fee (continued)

Audit area	£	Reason for fee variation
Covid-19		<ul style="list-style-type: none"> <li>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including management around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>
<b>Total proposed audit fees on completion</b>	104,893	

## B. Reports issued and fees Worcestershire Pension Fund

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

### Reports issued

Report	Date issued
Audit Plan	13 March 2020
Audit Findings Report	2 October 2020
Annual Audit Letter	February 2021

### Proposed final fees for the audit.

Audit fees	Proposed fee
Pension Fund scale fee	£19,222
Additional proposed audit fee at planning stage	£4,250
<b>Total proposed audit fees (excluding VAT) at planning</b>	<b>£23,743</b>
Further additional fees proposed at completion	£6,000
<b>Total proposed audit fees (excluding VAT) on completion</b>	<b>£29,743</b>

The Worcestershire Pension Fund Audit Plan presented in March included £4,250 of proposed additional fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid -19 and engaged our own auditors valuation expert to provide further assurance over your derivative disclosures. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £29,743, a breakdown of which is on the next page.

This further charge has not been entered into lightly, but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. We have been discussing this issue with PSAA over the last few months and not these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectations that audit standards remain high and of additional work needed across all audits.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	<b>£8,500</b>
- IAS 19 assurance letters to other auditors	

### Non- audit services

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

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.



## B. Reports issued and fees Worcestershire Pension Fund

### Breakdown of proposed final audit fee

Audit area	£	Reason for fee variation
<b>Scale fee</b>	19,222	
Raising the bar	2,500	The Financial Reporting council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	1,750	The FRC has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investment this year to reflect the expectations of the FRC and ensure we issue a safe opinion.
<b>Revised planning fee</b>	23,743	
Auditor's expert - valuation	2,000	As part of our audit work on investments we used, for the first time this year, our internal valuations team to provide assurance over the fair value of your derivatives.
Covid-19	4,000	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes; <ul style="list-style-type: none"> <li>Revisiting planning – we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS 1 particularly in respect of material uncertainties.</li> <li>Management's assumptions and estimates – there is increased uncertainty over many estimates including investment valuations.</li> <li>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>
<b>Total proposed audit fees on completion.</b>	29,743	





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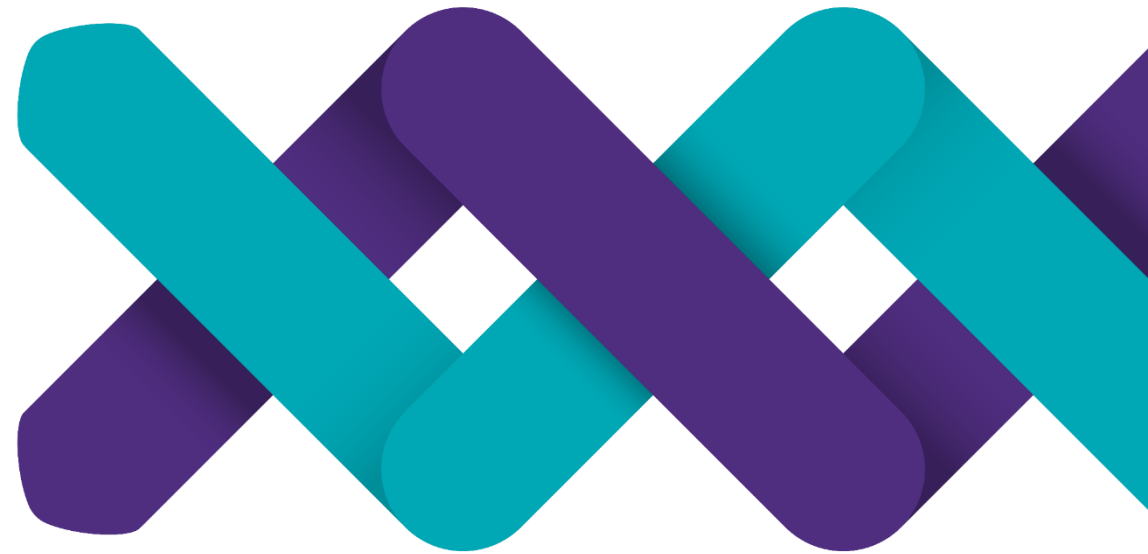
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# Audit Progress Report and Sector Update

Worcestershire County Council and Pension Fund

Year ending 31 March 2021

March 2021



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# Introduction

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or your Engagement Manager.

# Completion of the 2019/20 Audit

## Opinion for both the Council and the Pension Fund

We issued unqualified audit opinions on the financial statements of the Council and the Pension Fund on the 27 October 2020.

## Value for Money opinion

We issued an unqualified value for money opinion for the year ended 31 March 2020 on 27 October 2020.

## Certification of Completion of the Audit

At the point of signing our opinions and VFM conclusion we were not in a position to issue our certificate confirming closure of the 2019/20 audit as work remained outstanding in respect of;

- Our opinion work on the consistency of the pension fund financial statements of the Council included in the Pension Fund Annual Report with the pension fund financial statements; and
- The completion of our work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2020.

Following our review of the draft Pension Fund Annual Report and the resulting changes to a small number of disclosures, we issued our auditor's report on the consistency of the pension fund statements within the Annual Report on the 23 November 2020.

We completed our work on the WGA return by the initial deadline, however technical issues with the central system prevented the Council from submitting. The deadline was extended to enable the technical issue to be resolved. This was resolved and we completed our review and submitted our assurance statement confirming that the final submission was consistent with the Council's published financial statements on 1 February 2021.

Following completion of this work we certified completion of the Council's audit on 1 February 2021.

## Annual Audit Letter

In line with the National Audit Office (NAO)'s Code of Audit Practice and Auditors Guidance Note (AGN) 07, we issued the Annual Audit Letter on the 1 February 2021.

## Certification of claims and returns

### Teachers Pensions

We issued our report on the Council's Teachers Pensions Return for the 2019/20 year on 9 February 2021, in accordance with procedures required by Teachers Pensions. This was reported with trivial exceptions identified.

## Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers were invited to our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

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# Audit deliverables

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## 2020/21 Deliverables - Council

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### Audit Plan

We will agree the plan with officers and share them with members ahead of the next scheduled Audit and Governance committee at which we will formally present them.

April 2021

Not yet due

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### Audit opinion

September 2021

Not yet due

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### Audit Annual Report

September 2021

Not yet due

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## 2020/21 Deliverables – Pension Fund

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### Audit Plan

We will agree the plan with officers and share them with members ahead of the next scheduled Audit and Governance committee at which we will formally present them.

April 2021

Not yet due

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### Audit opinion

September 2021

Not yet due

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# Independence and ethics

We have complied with the Financial Reporting Pension Fund'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 Pension Fund'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.

There are two matters that impact on our independence as auditors that we are required or wish to draw to the attention of the Audit and Governance Committee.

- Kathryn Kenderdine acted as the in charge auditor for Worcestershire Pension Fund, and was a member of the audit team for the audit of Worcestershire County Council during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn will take up a post in the Internal Audit function of Worcestershire County Council. We have considered the ethical implications of this change of employment and gained assurances from the Chief Finance Officer that Kathryn will not be responsible for any part of the preparation of the financial statements for the 2020/21 financial year. We have ensured that appropriate safeguards have been in place from when Kathryn first applied for the role, through to her leaving her employment with Grant Thornton. These safeguards have included, restricting Kathryn's access to any files or documents relating to Worcestershire County Council and Pension Fund, and ensuring she is not present at any meetings where audit issues are discussed. As a further safeguard, any review of Internal Audit work during the course of our audit will not be undertaken by any junior member of the audit team that has previously worked to Kathryn.

Under ethical standards audit managers are required to complete no more than 10 years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any managers having an association with a client for more than 7 years. The audit of the 2020/21 financial statements will be the 8th year of association for the manager of the County Council and the 9th year for the Pension Fund. PSAA have granted Helen Lillington an extension for the 2020/21 financial statement audit, and this has been confirmed by our own internal ethics function. An additional review process has been put in place for these audit's this year, using our Quality Support Team. This will act as a further safeguard to independence.

We are satisfied that the matters above and proposed safeguards provide sufficient protection to enable us to remain independent to both the audit of Worcestershire County Council and Pension Fund for 2020/21.



# Financial Statements Audit 2020/21

## Materiality

### The concept of materiality

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

We have not yet determined the materiality for the year ended 31 March 2021.

## Significant risks for the Council

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we will expect our work to focus on.

### Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition. We are cognisant that the Council has been in receipt of additional revenue streams this year and we will be documenting the business processes of these and existing streams as part of our planning procedures to help inform our consideration of the revenue recognition risk.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance.

### Other potential significant risks at time of writing

**Valuation of land and buildings** - The Council revalues its land and buildings on a rolling basis. To ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, the Council requests valuations from its internal and external valuation experts. This valuation represents a significant estimate by management in the financial statements due to the value involved (£537 million in the Council's balance sheet as at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions. In addition, the Council have chosen to change the expert valuer used to provide this valuer. It is expected that the valuation of land and buildings will continue to be identified as a significant risk.

**Valuation of net pension liability** - The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£481m in the Council's balance sheet as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. It is expected that the net pension liability will continue to be identified as a significant risk.

### Other expected areas of focus

- We set out on pages 11 and 12 detail pertaining to the new accounting standard on Estimates. This raises the bar in terms of what both we and management are required to do. Therefore while in the past, we have focussed on the valuation of property plant and equipment, as well as the net pension liability, on the grounds that they are large and complex estimates in the accounts, this will occur to an even greater extent in 2020/21. This will also apply to any other material estimates made by management.
- *Practice Note 10: The application of auditing standards for public sector audits* was updated in November 2020. Revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. We are awaiting further NAO guidance but whilst our consideration of material going concern uncertainties will continue we do not anticipate this being a significant risk in 2020/21.

# Financial Statements Audit 2020/21

## Materiality

### The concept of materiality

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

We have not yet determined the materiality for the year ended 31 March 2021.

## Significant risks for the Pension Fund

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we will expect our work to focus on.

### Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition. We are cognisant that the Council has been in receipt of additional revenue streams this year and we will be documenting the business processes of these and existing streams as part of our planning procedures to help inform our consideration of the revenue recognition risk.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance.

### Other potential significant risks at time of writing

**Valuation of Level 3 investments** – The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March. It is expected that the valuation of Level 3 investments will continue to be identified as a significant risk.

### Other expected areas of focus

- We set out on pages 11 and 12 detail pertaining to the new accounting standard on Estimates. This raises the bar in terms of what both we and management are required to do. Therefore while in the past, we have focussed on the valuation of level 3 investments, on the grounds that they are large and complex estimates in the accounts, this will occur to an even greater extent in 2020/21. This will also apply to any other material estimates made by management.
- *Practice Note 10: The application of auditing standards for public sector audits* was updated in November 2020. Revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. We are awaiting further NAO guidance but whilst our consideration of material going concern uncertainties will continue we do not anticipate this being a significant risk in 2020/21.

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

## Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Financial guarantees

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.



# Revised auditing standard: Auditing Accounting Estimates and Related Disclosures Cont'd

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

## Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

## How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc.

Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit and Risk Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

## Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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# Sector update

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Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white.

Public Sector

A purple rectangular button with the text "Local government" in white.

Local  
government

# New NAO Code of Audit Practice for 2020-21

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work.

The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed.

Public consultation on this ended 2 September 2020.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VfM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The 'Commentary on arrangements' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

**Recommendations:** Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

**Progress in implementing recommendations:** Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

**Use of additional powers:** Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

**Opinion on the financial statements:** The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Chief Operating Officer shortly.

To review the new Code and AGN03 click [here](#)





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## **AUDIT AND GOVERNANCE COMMITTEE**

### **12 MARCH 2021**

## **INCOME MANAGEMENT**

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### **Recommendation**

1. **The Chief Financial Officer recommends that the Income Management report be noted.**

### **Progress on Income Management**

2. This report updates the Committee on progress with this change programme.
3. Since the last Committee meeting, the Income and Debt Manager has started her new post in January 2021 and has developed a new team structure for managing debt. New and experienced debt officers are in the process of being recruited and this is expected to be complete over the next month. A short-term review of the top debtors has been undertaken and a number of large debts have successfully been cleared following management action.
4. Existing Income and Debt procedures have been documented and reviewed, which will lead to updated income recovery processes and a new Corporate Debt Policy will be brought to a future meeting of this committee for approval.
5. Additionally, we have recruited temporary staff in Legal Services with the appointment of 3 legal professionals (a Solicitor, Legal Assistant and Legal Clerk) to focus on the legal recovery of aged debts. The team is managed by the Council's Principal Solicitor.
6. We have improved the provision of data extraction and reporting to enable analysis of debt. This has brought with it a much sharper focus on key debts and the ability for greater transparency to be managed within Directorate Services. Future development will be around extracting data to analyse customers payment patterns (i.e. impact of receipt of invoice, reminders etc.) to ensure that our process delivers optimal returns.

### **Latest position on debts**

7. The table below shows the level of sundry debt stands at £20.55 million (£30.2 million in October 2020), of which 62%, £12.77 million (67%, £20.2 million in October 2020) was raised this financial year.
8. Whilst the overall debt levels have reduced significantly since October 2020, this is mainly due to the inclusion in the October data of around £10 million precept invoices to District Council's raised within that month, which have since been paid.

**Table 1 – Summary of aged debt at start of 28 February 2021**

Year raised	Installment	Litigation	With Legal	With Officers (Dispute)	Pending Cancellation	< 30 Days	To be referred to Officers	February 2021 Totals		October 2020 Totals		
	£	£	£	£	£	£	£	£	£	£	£	
2014	1,381.33	178,767.71	17,542.61	59,695.48	137.09	-	-	5,710.54	251,813.68	1.23%	278,159.63	0.92%
2015	450.93	95,549.56	75,821.63	64,294.45	17,689.59	-	-	2,857.83	250,948.33	1.22%	261,824.46	0.87%
2016	28,865.92	219,643.42	48,987.20	179,589.73	4,458.81	-	-	22,978.89	458,566.19	2.23%	476,061.87	1.57%
2017	47,036.81	642,694.17	156,125.50	516,463.16	9,746.73	-	-	3,879.38	1,375,945.75	6.70%	1,372,451.36	4.54%
2018	45,131.79	893,070.61	6,836.39	1,042,576.49	47,002.32	-	-	89,694.60	1,944,923.00	9.46%	2,101,992.91	6.95%
2019	75,720.27	1,860,969.59	76,337.86	854,788.31	47,413.13	-	-	582,672.46	3,497,901.62	17.02%	5,555,928.10	18.38%
2020	525,522.40	1,420,113.94	-	1,096,398.38	28,031.51	5,004,631.20	4,696,156.84	12,770,854.27	62.14%	20,182,587.57	66.77%	
<b>Total Sundry Debts</b>	<b>724,109.45</b>	<b>5,310,809.00</b>	<b>381,651.19</b>	<b>3,813,806.00</b>	<b>154,479.18</b>	<b>5,004,631.20</b>	<b>5,161,466.82</b>	<b>20,550,952.84</b>			<b>30,229,005.90</b>	
	3.52%	25.84%	1.86%	18.56%	0.75%	24.35%	25.12%					
								Less Installments	- 724,109.45		- 2,541,268.23	
								Less <30 Days	- 5,004,631.20		- 9,776,457.50	
									<b>14,822,212.19</b>		<b>17,911,280.17</b>	
								Of Which				
								In Litigation	381,651.19	2.57%	202,355.59	1.13%
								With Managers to chase or complete litigation forms	5,310,809.00	35.83%	592,238.59	3.31%
								With Liberata undergoing reminder action	5,161,466.82	34.82%	14,699,777.86	82.07%
								With Managers In dispute or awaiting cancellation	3,968,285.18	26.77%	2,416,908.28	13.49%
									<b>14,822,212.19</b>		<b>17,911,280.32</b>	

9. Of the total debt recorded greater than 30 days old, for which there is not an instalment or pending cancellation is £14.8 million (October 2020 - £17.911 million).

**Table 2: Debt to chase - Summary**

31/10/20 (reported to Last A&G)	28/02/21	Comment
£2.4m	<b>£4.0m</b>	With managers/clerks to determine the next steps to chase, collection or write off debt.
£14.7m	<b>£5.1m</b>	With Liberata having sent reminders to next seek advice from Managers as to the next steps for recovery. This is usually the point at which debt becomes greater than 90 days.
£0.6m	<b>£5.3m</b>	Litigation action being taken through final reminders
£0.2m	<b>£0.4m</b>	With legal to pursue through the courts or other measures, or for write off
£17.9m	<b>£14.8m</b>	<b>Total</b>

10. The top 20 debtors, anonymised, are as follows:

**Table 4: To 20 Debtors – Anonymised**

TYPE	Current	<12 Months	>12 Months	Grand Total
NHS		1,558,822.17		1,558,822.17
COUNCIL	1,092,699.06	8,144.00	8,779.37	1,109,622.43
EDUCATION	60,669.66	214,932.00	619,036.50	894,638.16
COMPANY	391,106.34			391,106.34
COUNCIL		308,407.90	5,880.00	314,287.90
COMPANY	90,589.39	139,079.76	60,990.48	290,659.63
COUNCIL	29,367.55	44,857.69	140,104.73	214,329.97
COUNCIL	196,788.16	4,300.00	- 4,576.33	196,511.83
INDIVIDUAL		195,412.57		195,412.57
INDIVIDUAL	181,423.36	10,159.14	2,067.36	193,649.86
NHS	60.00	3,077.00	173,837.12	176,974.12
EDUCATION	306.00	36.00	172,972.67	173,314.67
EDUCATION	164,266.06			164,266.06
COMPANY			145,653.83	145,653.83
COUNCIL		137,800.36		137,800.36
INDIVIDUAL			119,057.43	119,057.43
COUNCIL	7,133.34	21,793.20	87,773.30	116,699.84
COMPANY	116,225.03		52.50	116,277.53
COMPANY			113,102.52	113,102.52
INDIVIDUAL			111,582.80	111,582.80
TOTAL	2,330,633.95	2,646,821.79	1,756,314.28	6,733,770.02

11. The level of debt owed by the Top 20 Debtors is now £6.7 million (£14.8 million in October 2020).

12. The Debt Team are liaising with Senior Council Officers to ensure that certain NHS, Education and Council debts are being followed-up.

13. There are 4 debtors in the top 20 marked as 'individual' these are more sensitive as they relate to social care service users.

14. Where companies owe the Council money, we are proactively contacting these companies and working with operational managers to ensure payment is received.

15. We have recommenced the dunning process to issue reminders for all outstanding debts.

### Legal Services Update

16. A referral procedure for cases to come to the Legal Services' Debt Team has been established with the Centralised Debt Team. The Legal Services' Debt Team has developed its internal processes, reviewing standard letters to ensure compliance with pre-action protocols where applicable, drafting precedents and developing an electronic case management system through Iken.

17. There are two main category of debts that have been referred to date, namely care home fees and other miscellaneous debts. Clearance of care home fees are often reliant on for the sale of the Deceased's property. There are currently three active cases, which fall into this category, and they should bring in around £93,000.

18. Care fees recovery to date total around £33,000. In addition, there are two other cases with monthly payment plans in place – the overall debt for these is around £18,000. Recovery on sundry debts is £13,000 and payment plans are in operation for a number of debts totalling just over £1,000.

19. There are 48 active files at present. Looking forward we are expecting an increase in referrals once the Centralised Debts Team is fully operational. The legal and finance teams are working closely to ensure that there is a robust approach taken to recover debts so that deadlines for referrals to the legal team are strictly adhered to and where litigation is advised it is commenced in a timely manner. The legal and finance teams will also collaborate to develop a revised Corporate Debt Policy and Write off Policy and procedure.

### **Legal, Financial and HR Implications**

20. There is a risk that without this work there will be further calls to increase the Council's bad debt provisions which will draw from current resources. In assessing the ability to chase the levels of capacity within Legal, Finance and HR will need to be considered. At this stage these are all risks that we are still seeking to mitigate and further updates will be brought back to this Committee.

### **Contact Points**

#### Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

Mark Sanders, Deputy Chief Finance Officer (Corporate Finance), 01905 846519, [mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

### **Background Papers**

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

## **AUDIT AND GOVERNANCE COMMITTEE**

### **12 MARCH 2021**

## **RISK MANAGEMENT UPDATE**

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### **Recommendations**

- 1. The Chief Internal Auditor recommends that the Risk Management update be noted.**

### **Background**

2. The key risk focus continues to be the Council's response to the Covid pandemic; however, we have been working closely with directorates to review the status of corporate risk and develop a more consistent approach to risk management.

### **Risk management 2020/21 – Covid response**

3. We have been supporting Covid risk management by collating, challenging, and reporting risks to Silver Command. To support this process all Covid risks have been collated into one register to enable clearer reporting.
4. Fundamental to the effective management of Covid risk is the school testing programme which enables a low risk to be recorded in relation to pupils returning to the classroom.
5. More recent risks relate to the variants of Covid and the increasing cohort of shielded persons, however the risk levels also remain low.
6. There are currently no red Covid risks reported at Silver.

### **Risk management 2020/21 – Corporate**

7. Corporate risks are being collated centrally on CorVu, our current risk management software system, and updated by the Corporate Risk Management Group (CRMG) representatives. There is still some inconsistency, so we continue to work with CRMG to understand their risks and how these are managed, and are procuring a more effective system to support our future plans.
8. Operational risks are held locally; however, we are confident that these are being managed and updated on an operational basis.
9. A revised risk process was reported to the Chief Officer Group (COG) in October which included a number of recommendations. The timetable has had to be revised due to resources being focused on the Covid pandemic, however the following recommendations have been actioned:

- a) An updated Corporate Risk Policy Statement and Strategy has been developed which we will be approved Cabinet in due course.
- b) A new Corporate Risk Management Group (CRMG) has been established, chaired by the Chief Internal Auditor, and a review of current risks has been undertaken.
- c) Risk management E-Learning is being reviewed before wider roll out.

## **Contact Points**

### Specific Contact Points for this report

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## **Background Papers**

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



**AUDIT AND GOVERNANCE COMMITTEE**  
**12 MARCH 2021****STATUTORY ACCOUNTS 2020/21 PROGRESS,  
ACCOUNTING POLICIES AND ESTIMATES**

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**Recommendation**

1. The Chief Financial Officer recommends that:
  - a) The work in preparation for the 2020/21 Statutory Accounts be noted;
  - b) The accounting policies for 2020/21 be approved; and
  - c) Management arrangements to identify and evaluate accounting estimates be noted.

**Background**

2. This report provides a review of the County Council's accounting policies and estimates and an update on progress against the 2020/21 statutory accounts workplan.

**Accounting Policies 2020/21**

3. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements. As per 2019/20, the notes to the 2020/21 Statement of Accounts will include the relevant accounting policy.
4. Following a review, there are no changes proposed to the Council's accounting policies for 2020/21.

**Statutory Accounts Progress Update**

5. Following the review of staffing resources as part of the Finance Improvement Programme, the statutory accounts team has been strengthened and is on target with both the preparation work for the Statutory Accounts production and with responses to support external audit planning and initial risk assessment activity.
6. The statutory deadline for the 2020/21 accounts process is 30 September 2021. We have prepared a detailed closedown plan to prepare accounts to be audited and ready for approval by this committee to meet the proposed deadline. Additionally, we will present draft accounts for July committee approval.

7. We continue to work closely with Grant Thornton to agree key milestones and establish a plan to address potential challenges arising from continued remote working across our respective teams.

8. We have appointed Wilks Head & Eve to perform the asset valuations in 2020/21 in line with our rolling programme. A work instruction has been issued and valuation work will be undertaken to enable discussion and challenge prior to the presentation of the valuers' formal report in early April 2021.

9. The statutory accounts team has delivered training to finance staff and detailed closedown deadline instructions have been issued to all relevant stakeholders.

10. In 2020/21, Worcestershire County Council (WCC) will prepare group accounts to include the relevant transactions and balances from our material interests in other entities which we have determined to meet the definition of a subsidiary, associate or joint venture. Our assessment of the group boundary remains as per 2019/20:

- Worcestershire Children First (WCF) is a 100% wholly owned **subsidiary** of WCC
- West Mercia Energy (WME) is a **joint venture**

#### **Worcestershire Children First (WCF)**

11. The Council controls the entity, established as company limited by guarantee, by virtue of its 100% shareholding. WCF will be accounted for as a subsidiary with line-by-line consolidation in the group accounts, in accordance with IFRS 10: Consolidated Financial Statements.

#### **West Mercia Energy Joint Committee (WME)**

12. WME is constituted as a Joint Committee; WCC is one of four constituent authorities alongside Shropshire Council, Herefordshire Council, and Telford & Wrekin Council. In accordance with IFRS 11: Joint Arrangements, WME will be accounted for as a joint venture in the 2019/20 Group Accounts on the basis that a collaborative arrangement exists, WCC has joint control, there is a separate vehicle in place and WCC has rights to 25% of the net assets of the arrangement.

#### **IFRS 16: Leases**

13. Due to the impact of COVID-19, the effective date for the implementation of IFRS 16: Leases has been deferred to 1 April 2022.

14. Under the new standard, which replaces IAS 17, leases will no longer be classified as finance or operating leases and all leases will be recognised on balance sheet with the exception of short-term leases (leases of 12 months or less) and low value assets (where the right-of-use asset is less than £10,000).

15. Our approach and proposed IFRS 16 disclosures will be subject to review by Grant Thornton as part of planned audit work in 2020/21. We will continue activity to monitor and record the Council's lease arrangements to ensure complete and accurate disclosure in future reporting periods which is compliant with the requirements of the new standard.

#### **Accounting Estimates 2020/21**

16. The preparation of financial statements requires management to make judgements, estimates and assumptions which affect the value of assets and

liabilities reported at the balance sheet date and amounts recognised as income and expenditure in the year.

17. The material accounting estimates which affect balances and transactions in the financial statements for the year ending 31 March 2021 have been identified by management as: valuation of land and buildings, depreciation and impairment, year end provisions and accruals, measurement of financial instruments, valuation of defined benefit net pension fund liabilities.

18. Our assessment of material accounting estimates in year includes consideration of the requirement for specialised skills and knowledge from management experts, e.g. asset valuations and investments, a review of the methods, models and assumptions used to inform the accounting estimates and consideration of the degree of estimation uncertainty relevant to each accounting estimate.

19. The notes to the 2020/21 financial statements will disclose the material accounting estimates included in our balances and transactions and the models and assumptions on which they are based. Where a risk of material uncertainty has been identified, the notes will include additional information to disclose the sensitivity of values to the assumptions and uncertainties and the range of reasonably expected outcomes relevant to the balance or transaction.

20. Management's assessment of material accounting estimates in 2020/21 is included as an Appendix to this report.

## Contact Points

### Specific Contact Point for this report

Michael Hudson, Chief Financial Officer, 01905 845560, [mhudson@worcestershire.gov.uk](mailto:mhudson@worcestershire.gov.uk)

Mark Sanders, Chief Accountant, 01905 846519, [mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

## Supporting Information

- Appendix – Accounting Estimates

## Background Papers

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

Statement of Accounts including Accounting Policies 2019/20

[https://www.worcestershire.gov.uk/downloads/file/12714/financial\\_accounts\\_20192020](https://www.worcestershire.gov.uk/downloads/file/12714/financial_accounts_20192020)

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Estimate	Method/model used to make the estimate	Controls used to identify estimates	Use of management expert	Underlying assumptions: Assessment of degree of uncertainty/ use of alternative estimates	Change in method/model in 2020/21.
Property, plant & equipment valuations	Valuations are performed by a qualified valuer (RICS/CIB Member) in line with our 5-year rolling programme of asset valuations. A review of assets not revalued in the year is undertaken to determine the potential risk of material movement in the valuation of asset categories not revalued in year.	The specific requirements in respect of year end asset valuations are communicated to our expert valuers through a detailed work instruction (issued in December 2020). A review of draft values is performed by management to challenge and understand any unusual or significant changes in valuation. The results of this review are discussed with the valuer prior to issue of the final valuation report and inclusion in the financial statements.	Y – We have appointed RICS registered firm Wilks Head & Eve LLP to undertake our asset valuations in 2020/21.  A separate valuer is used with regard to the Energy from Waste site.	A detailed exercise is undertaken to quantify and document our assessment of risk in respect of the assets not revalued in the year to conclude whether there is risk of material misstatement of asset values. This is informed by BCIS construction data, historic movements in land values and local/sector information. We consider the uncertainty relating to asset valuations in the context of information provided by our expert valuers alongside our local and market knowledge and input from relevant individuals across the Council.	Change in expert valuer in 2020/21. No changes in valuation methods in 2020/21.

				<p>An estimate of the Council's exposure to this uncertainty in respect of impairment losses and revaluation losses is quantified and disclosed in the notes to the accounts.</p> <p>In 2020/21 we will consider RICS guidance, and information provided by our expert valuer, to determine any potential uncertainty as a result of the impact of COVID-19 on asset values.</p>	
Estimated remaining useful lives of PPE	The estimated remaining useful lives of PPE assets are reviewed by our expert valuer and service representatives.	Asset lives are reviewed by the expert valuers as part of our 5-year rolling programme and are considered by Directorates as part of year-end procedures.	Y – in respect of assets revalued in year.	Variations to the estimated useful life of an asset will alter the amount of depreciation charged to the Comprehensive Income & Expenditure Statement. The impact of this is minimised by the review of asset lives performed at each formal valuation as well as year-end procedures.	There are no changes to the method/models used in 2020/21.

Impairments	Assets are assessed at each year-end to determine whether there is an indication that an asset may be impaired.	Evidence of impairment is considered by the expert valuers as part of our 5-year rolling programme and by Directorates as part of year-end procedures.	Y – in respect of assets revalued in year.	Where indicators of impairment are identified, and the impact is deemed to be material, the recoverable amount of the asset is estimated and there less than the carrying value of the asset, an impairment loss is recognised for the shortfall.	There are no changes to the method/models used in 2020/21.
Depreciation and Amortisation	Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable life (e.g. freehold land and certain community assets) or those not yet available for use (e.g. Assets under Construction) are not depreciated. Depreciation is calculated on a straight-line basis over	Depreciation is calculated based on asset values and estimated useful lives as noted above.	Y – in respect of assets revalued in year.	Variations to the estimated useful life of an asset will alter the amount of depreciation charged to the Comprehensive Income & Expenditure Statement. The impact of this is minimised by the review of asset lives performed at each formal valuation as well as year-end procedures.	There are no changes to the method/models used in 2020/21

	<p>the remaining useful life of the asset, as determined by our expert valuer. Newly acquired assets are depreciated from the mid-point of the year. Vehicles are depreciated over the life of the asset; equipment is generally depreciated over a 5year estimated useful life; IT equipment is depreciated over 3 years.</p>				
<p>Measurement of Financial Instruments</p>	<p>The Council values its financial instruments at fair value, as informed by the advice of external and independent Treasury Management advisors and Investment Fund Managers.</p>	<p>Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.</p>	<p>Y</p>	<p>Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks and, as per previous financial year, we will consider any additional credit risks arising as a result of the COVID-19 pandemic. Risks to accounting estimates used in our measurement of financial instruments</p>	<p>There are no changes to the method/models used in 2020/21.</p>



				are managed through our Treasury Management Strategy and the Council's overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	
Provisions for liabilities	Provisions are made whenever an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.	Information to support the calculation of provisions for liabilities is provided by our expert legal team and by Directorate teams as part of year-end procedures. Liabilities are subject to review by Service Finance Leads and challenge by Central Finance.	N	Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	There are no changes to the method/models used in 2020/21.

PFI schemes and similar contracts	PFI and similar contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its Balance Sheet as part of PPE. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.	Accounting transactions in year are based upon the initial assessment as informed by expert advisors. We ensure continuity and expertise of qualified accountancy staff to undertake accounting entries consistent with previously audited figures.	N	There is no exposure to risk of material uncertainty in respect of PFI transactions and balances.	There are no changes to the method/models used in 2020/21.
Non Adjusting events – events after the reporting date	The Council's s151 officer performs an assessment of events	A review of activity in the period between the balance sheet date	N	Uncertainty in respect of estimated financial impact is considered by	There are no changes to the method/models used in 2020/21.

	<p>after the reporting period. Where events provide evidence of conditions that existed at the end of the reporting period, the financial statements are adjusted. If an identified event is indicative of conditions that arose after the balance sheet date, this is a non-adjusting event and where the effect is considered to be material, disclosure is made of the nature of the event and the estimated financial impact.</p>	<p>and formal sign off of the statement of accounts is performed by the s151 officer to identify events requiring disclosure or adjustments.</p>		<p>the s151 officer in the context of the identified event.</p>	
Accruals	<p>Accruals are prepared to reflect the costs of goods and services received and the income generated for goods and services supplied up to and including the period ending 31 March 2021. Accruals of income and expenditure are</p>	<p>All accruals are reviewed and signed off by finance. Additional controls are in place for accruals over £100k and working papers are maintained to support and evidence the calculation of the accrual.</p>	N	<p>Uncertainty in respect of accrued income and expenditure is considered on an individual basis and assumptions and risk are documented as part of supporting working papers.</p>	<p>There are no changes to the method/models used in 2020/21.</p>

	calculated for amounts greater than £5k.				
Valuation of defined benefit pension amounts and disclosures	The valuation of assets and liabilities in respect of defined benefit obligations are calculated by the independent firm of actuaries. Liabilities are assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The LGPS has been assessed by Mercer Ltd and estimated for the Council's fund are based on the latest full valuation of the scheme as at 31 March 2019.	The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	Y	The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. We consider the sensitivity of the estimate based on reasonably possible changes in the assumptions occurring at the end of the reporting period.	There are no changes to the method/models used in 2020/21.
Pension Fund Actuarial Gains/Losses	The actuarial gains and losses are calculated by the independent firm of actuaries. These	The Council's Pension & Investments Manager communicates with	Y	As noted above.	There are no changes to the method/models used in 2020/21.

	figures are based on making percentage adjustments to the closing value of assets and liabilities. The Council relies on expert advice from our actuaries and all key assumptions are considered by management and disclosed in the financial statements.	externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.			
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## **AUDIT AND GOVERNANCE COMMITTEE 12 MARCH 2021**

### **WORK PROGRAMME**

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#### **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**

##### **29 July 2021**

Internal Audit Annual Report 2020/21  
External Audit – Audit Findings Report - TBC  
Annual Governance Statement  
Annual Statutory Financial Statements for the year ending 31 March 2021  
Internal Audit Progress Report 2021/22  
Corporate Risk Report  
Income and Debt Management

##### **1 October 2021**

Internal Audit Progress Report 2021/22  
External Auditor – Annual Audit Letter  
Corporate Risk Report  
Anti-Fraud Report 2020/21  
Income and Debt Management

##### **3 December 2020**

Internal Audit Progress Report 2021/22  
Corporate Risk Report

##### **March 2022**

Internal Audit Progress Report 2021/22  
Internal Audit Plan 2022/23  
Corporate Risk Report  
Income and Debt Management

#### **Contact Points**

Specific Contact Points for this report  
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## **Background Papers**

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance) there are no background papers relating to the subject matter of this report.