

Worcestershire County Council

Agenda

Audit and Governance Committee

Wednesday, 30 November 2022, 2.00 pm
County Hall, Worcester

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DISCLOSING INTERESTS

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

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

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

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

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

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

Audit and Governance Committee
Wednesday, 30 November 2022, 2.00 pm, County Hall,
Worcester

Membership: Cllr Nathan Desmond (Chairman), Cllr Salman Akbar, Cllr Andy Fry,
Cllr Laura Gretton, Cllr Peter Griffiths, Cllr Luke Mallett,
Cllr Dan Morehead and Cllr Emma Stokes

Agenda

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1	Apologies and Named Substitutes	
2	Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Assistant Director for Legal and Governance 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, 29 November 2022). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address listed in this agenda and on the website.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 23 September 2022. (previously circulated)	
5	Statutory Accounts and Pension Fund 2021/2022 - External Audit Findings Report	1 - 74
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7	Annual Statutory Financial Statements for the year ended 31 March 2022	To follow
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All the above reports and supporting information can be accessed via the Council's website

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AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

STATUTORY ACCOUNTS AND PENSION FUND 2021/22 – EXTERNAL AUDIT FINDINGS REPORT

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) The Audit Findings Report 2021/22 for Worcestershire County Council as set out in Appendix 1 be noted;**
 - b) The Audit Findings Report 2021/22 for Worcestershire Pension Fund as set out in Appendix 2 be noted;**
 - c) The Committee considers whether it wishes to receive any further reports on information contained in the Report; and**
 - d) The Committee considers whether there are any issues arising from the Report to draw to the attention of the Council.**

Summary

2. A representative from Grant Thornton will attend the meeting to discuss the Audit Findings Reports for committee consideration.
3. Grant Thornton is responsible for producing an Annual Findings Report for both Worcestershire County Council and the Worcestershire Pension Fund, to inform Committee of any issues identified during the audit(s), and to update on overall audit progress.
4. The Reports include Action Plans of auditor recommendations to address any deficiencies found in the financial statements and processes, alongside initial management responses from Officers.

Contact Points

Specific Contact Points for this report

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Chris Bird, Chief Accountant, 01905 84**6994**, cbird1@worcestershire.gov.uk

Supporting Information

- **Appendix 1**- The 2021/22 Annual Findings Report for Worcestershire County Council
- **Appendix 2** – The 2021/22 Audit Findings Report for Worcestershire Pension Fund

Background Papers

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

The Audit Findings for Worcestershire County Council

Year ended 31 March 2022

Worcestershire County Council
November 2022

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Section

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2. Financial statements
3. Value for money arrangements
4. Independence and ethics

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

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

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Name : Mark Stocks
For Grant Thornton UK LLP
Date : 21 November 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements

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

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We commenced our post-statements audit in July and our audit was substantially completed in September. Our findings to date are summarised on pages 5 to 18.

The Council chose to make a non-material adjustment to the financial statements in relation to grants received in advance which had incorrectly been included in creditors in the draft accounts. As a result, £8.2m was moved into grants received in advance from creditors. This did not affect useable reserves. We found a similar non-material error (£6.1m) had occurred in 2020/21. Whilst reviewing this, a related error was identified where material grant income (£23.2m) which should have been charged to income in 2020/21 (as there were no unfulfilled conditions on the grant income) was instead treated as a creditor. As this error affected the amount of income charged in the year, this increased useable reserves. As the combined error was material in the prior year, a prior year adjustment for both 2020/21 errors was necessary.

The Code requires infrastructure assets to be valued at depreciated historical cost. It also requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component is derecognised to avoid double counting. Most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and will therefore have treated the amount of the replaced component as zero. This is because the replaced component is considered to have been fully used up at the point that it is replaced. However, there is often a lack of evidence to support this assumption and some subsequent expenditure, is often in addition to the previous asset rather than being a direct replacement. There is a significant risk that local authority financial statements could be subject to qualified audit opinions in this area if no action is taken. The Department for Levelling Up, Housing and Communities (DLUCH) are therefore preparing a temporary statutory override with regards to infrastructure assets, whilst a permanent solution is developed by CIPFA. We expect this statutory override to be effective from late December 2022. In parallel to this, we understand that CIPFA are looking to revise the Code so that it reflects this temporary statutory override. Once these have been issued, we will develop an audit work programme to make an assessment of whether there could be a material risk of misstatement for the Council. We expect to be in a position to complete this work in January 2023.

There are no matters arising to date that would require modification of our audit opinion. We have recommended a small number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix C. We have also raised a number of recommendations for management as a result of our audit work in Appendix A.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported in the main by good working papers. We received prompt responses to our transactional based queries, with inevitably our more challenging judgemental queries on PPE and grants taking a bit longer. This reflects the continuous raising of the bar and auditors providing greater challenge to the Council each year especially in the areas subject to greatest estimation and uncertainty.

Subject to the resolution of the outstanding queries, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting, as detailed in Appendix E.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent before 30 September 2022. We expect to issue our Auditor's Annual Report by 31st December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, (which will be reported in our Annual Auditor's report in December 2022) and the WGA return.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

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Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Worcestershire Children First was required, which was completed by Grant Thornton UK LLP; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter the audit plan we previously communicated with you.

Conclusion

Our audit is substantially complete.

There are a few outstanding items including;

- Clearance of review points
- Completion of work on investments, payroll, and group accounts
- receipt of management representation letter (see appendix B) and review of the final set of financial statements;
- finalisation of our internal expert review of differences between your PFI models and our equivalent models;
- Completion of our external expert review on their assessment of PPE assets not revalued in year; and
- Audit of infrastructure assets including justification from your engineers on the use of one standard useful economic lives of infrastructure assets be

Acknowledgements

We would like to take this opportunity to record our appreciation for the very good assistance provided by the finance team and other staff. We successfully introduced a new software package to share files and manage requests for information, which has helped track queries and improve the efficiency on the audit.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have not revised the materiality used for the draft financial statements from audit planning. This materiality level was based on a percentage of 2020/21 gross expenditure.

We detail in the table below our determination of materiality for Worcestershire County Council

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	£14.5m (£14.5m)	£14.4m (£14.4m)	Materiality has been based on 1.5% of the Authority and Group's gross expenditure.
Performance materiality	£10.8m (£10.8m)	£10.8m (10.8m)	Our performance materiality has been set at 70% of our overall materiality.
Trivial matters	£725k (725k)	£725k (£725k)	This is set at 5% of financial statement materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration	£20.5k	£20.5k	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We 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.

Risk relates to both the Group and the Council

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls.

As part of our risk assessment, we consider the controls around posting journals. We noted that the Council's ledger does not require independent authorisation of journal entries. We were told that individual directorates had processes to mitigate this weakness, but our testing found that this was not consistent and therefore was not a system that can be generally relied on.

Finance staff can also post manual journals to non manual batch types. Whilst follow up audit work did not identify any evidence of management override, this could potentially lead to journals escaping any form of authorisation process.

In general, we found that some of the Finance team were not fully familiar with some controls and processes for journals (such as authorisation, user listings and manual journals) and further guidance to staff may be beneficial. Improving controls in this process will reduce the opportunities for fraud and error.

These control weaknesses resulted in us increasing our risk assessment from 'low' to 'medium' risk, with the effect of increasing the overall amount of testing required to satisfy our audit requirements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (rebutted)

Risk relates to both the Group and the Council

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Worcestershire County Council mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Worcestershire County Council

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 County Council.

Our audit work has not identified any issues in respect of improper revenue recognition.

The expenditure cycle includes fraudulent transactions (rebutted)

Risk relates to both the Group and the Council

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We have rebutted this presumed risk for Worcestershire County Council because:

- expenditure is well controlled and the Fund has a strong control environment; and
- the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.

We therefore do not consider this to be a significant risk for Worcestershire County Council.

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 County Council.

Our audit work has not identified any issues in respect of improper expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

Risk relates to the Council only.

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents 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. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by the valuer for those assets revalued at 31 March 202s. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these **assets are not materially different to the current value at the year end.**

Our audit work identified two important risks which necessitated additional work.

The first related to a number of significant increases in valuations carried out by your current valuers WHE when compared to the valuations carried out by your previous valuers. This was particularly important as there was a very significant value of PPE which had not been valued by your current valuer. We challenged the basis of valuations carried out by both your old and new valuers to establish if there was an error in either old or new valuations. With the assistance of our own expert valuer we were able to conclude that the valuations of both your current valuer and previous valuer were reasonable and complied with industry guidance. We note that the valuers had taken different views on a number of assumptions which had resulted in the significant differences between years.

A second issue related to the assessment of whether the value of assets not valued in the year would have changed materially. We challenged the basis of management's assessment that this would not have a material effect and utilised our own expert valuer to review the assumptions used in this assessment. We are currently awaiting their final assessment.

In Appendix B we further discuss the difficulties your current asset management system brings to the audit. We consider that management should assess whether this is still fit for purpose.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Energy From Waste (EFW) Plant

Risk relates to the Council only.

The Council carries a large Waste Management asset on their Balance Sheet. This consists of Plant and Equipment and due to the high value this will be considered a significant risk this year alongside valuation of Land and Buildings. Management will need to ensure the carrying value in the Council's financial statements is not materially misstated.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- As an expert valuer was used, the following verifications were completed:
- assessed instructions issued to valuation experts and the scope of their work (should an expert be used);
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- evaluated the assumptions made by the valuer as at 31 March 2022.

Our audit work to date has not identified any material issues in respect of valuation of the EFW Plant. The Council now values this asset annually which reduces the risk that the value has changed materially from the last valuation.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

Risk relates to the Council only

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 in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- 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; and
- undertook 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.

Our audit work has not identified any issues in respect of valuation of the pension fund liability. We note that the actual fund manager confirmations showed that the year end valuation of level 3 investments was £19.6m higher than that estimated in the accounts for the whole fund. This is because accounts need to be closed down on estimated values before final fund manager reports are received. Worcestershire County Council's share of these assets is approximately 31%. We have specifically commented on the reasonableness of the assumptions used on page 13.

2. Financial Statements - other risks

Risks identified in our Audit Plan

Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note

Risk relates to the Council only

Infrastructure assets includes roads, highways and streetlighting. As at 31 March 2021, the net book value of infrastructure assets was £418m which is a significant multiple of materiality.

In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated

historical cost. With respect to the financial statements, there are two risks which we plan to address:

1.The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.

2.The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.

For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.

Commentary

We have:

- Reconciled the Fixed Asset Register to the Financial statements**
- Using our own point estimate, considered the reasonableness of depreciation charge to Infrastructure assets**
- Obtained assurance that the UEL applied to Infrastructure assets is reasonable**
- Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated**

We have completed the work as set out above. The Council does not derecognise Infrastructure assets on replacement. As such, we cannot conclude that the disclosure is not materially misstated. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) are continuing to work on a Statutory Instrument with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It therefore is hoped that this Statutory Instrument, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Worcestershire Children First	Grant Thornton UK LLP	A full scope audit has been performed by an audit team led by Bill Devitt from Grant Thornton. An unqualified audit opinion was given on the 27 th August 2022 by Grant Thornton UK LLP. No significant issues were identified.	We have reviewed the work performed by the component auditor and have concluded that this provides sufficient assurance for the group audit.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations	<p>Other land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The Council has engaged Wilk's Head and Eve to complete the valuation of properties as at 31 03 22 on a five yearly cyclical basis..</p> <p>Management has considered the potential valuation change for those assets revalued in prior years, to determine whether there has been a change in the total value of these properties at 31 March 2022. Management's assessment of asset valuation over this period has identified no material change to the value of these assets.</p>	<p>We have assessed your valuer Wilks Head and Eve to be competent, capable and objective.</p> <p>We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report.</p> <p>We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management in determining the movement of assets that have not been revalued in the current year.</p> <p>We have considered the estimate against indices provided by the auditor's expert and investigated differences. This has not provided any evidence that the estimate made by management is unreasonable. Please see our detailed comments on page 9.</p> <p>The working papers have continued to improve, however the greater emphasis placed on estimates as a result of ISA 540 means that further work is needed in this area by management to fully challenge the valuer and understand the basis of the estimates made.</p> <p>The accounts include some disclosure on the level of estimation uncertainty relating to PPE, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates.</p>	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																				
Net pension liability – £436m	<p>The Council's net pension liability at 31 March 2022 is £436m (PY £444m) comprising the Worcestershire Pension Fund Local Government defined benefit pension scheme obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> We have assessed the Council's actuary, Mercer, to be competent, capable and objective. We have performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2021/22 roll forward calculation carried out by the actuary and have no issues to note. We have used PwC as auditors expert to assess actuary and assumptions made by actuary, the assumptions used by the actuary are in the range anticipated by our auditors expert. <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.8%</td> <td>2.7% to 2.8%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.4%</td> <td>3-3.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.9%</td> <td>3.9% to 5.9%</td> <td>●</td> </tr> <tr> <td>Duration of liabilities</td> <td>17 years</td> <td>15 to 22 years</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have reviewed the reasonableness Council's share of LPS pension assets and have no issues to raise. The accounts include some disclosure on the level of estimation uncertainty relating to the pension fund net liability, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7% to 2.8%	●	Pension increase rate	3.4%	3-3.5%	●	Salary growth	4.9%	3.9% to 5.9%	●	Duration of liabilities	17 years	15 to 22 years	●	Light purple
Assumption	Actuary Value	PwC range	Assessment																				
Discount rate	2.8%	2.7% to 2.8%	●																				
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Salary growth	4.9%	3.9% to 5.9%	●																				
Duration of liabilities	17 years	15 to 22 years	●																				

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Financial Instruments	<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>	Our work in relation to financial instruments has not identified any significant issues.	Dark purple
Minimum Revenue Provision	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.	Our work in relation to MRP has not identified any significant issues.	Dark Purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment and Recommendations

To support the opinion on the financial statements we completed an audit of the IT general controls as they affect the financial statements during the 2020/21. A separate report was provided to management, which included a detailed consideration of the issue raised and a recommendation. Management accepted all of the recommendations in the report and provided a management response. Ten control weaknesses were noted in general IT controls, these can be summarised as follows;

- User access for terminated employees/ leavers not disabled in a timely manner
- Lack of documentation over Altair change of access rights
- Lack of documentation over testing performed for Altair upgrades
- Lack of review of information security event/audit logs
- Insufficient periodic review of user access
- Lack of documented IT operations policies
- Lack of documentation/evidence on E5 batch job completion process
- Non-compliance with the password policy
- Lack of process to proactively review IT service provider assurance reports
- No employee acknowledgement of the WCC IT Policies

The report included 6 recommendations where there were considered to be ineffective control's which could create a risk of inconsequential misstatements within the financial statements, and 4 recommendations where we identified an opportunity to improve control. We followed up on progress as part of our interim audit in 2021/22 and found that 3 recommendations had not been fully implemented. These relate to: improved audit logs, reviews of user roles and employee acknowledgement of Council IT policy.

We will continue to follow up progress at our next audit.

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We have reported our findings in this area as part of appendix C.
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management was provided.</p> <p>Working papers were generally of a good quality. Reporting from the finance system still includes large balances of debit and credit items that cannot be stripped from the population for testing. This continues to produce larger sample sizes for testing than we would expect for a Council of this type and therefore takes more time on both the part of council staff and auditors. This has been raised previously with both officers and members, particularly in light of the affect it has on audit work.</p> <p>Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature inevitably took longer.</p>

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and HM Treasury have indicated that the required data collection tool will not be available until December. Once the timetable is released we will work with officers to ensure the required procedures are completed.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of closure of the 2021/22 audit of Worcestershire County Council in the audit report, as detailed in Appendix E, due to incomplete VFM work and the need to complete the procedures in respect WGA.</p>



3. Value for Money arrangements

Approach to Value for Money work

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of December. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk/s set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness

Work performed to date

The Council has set a balanced budget for 2022/23. This was achieved through a combination of factors including identifying efficiencies (£8m) and a use of earmarked reserves. The medium financial outlook is more uncertain, with budget gaps of £10.5m identified for the 2023/24 financial year and further gaps of £12.2m in 2024/25 and £9.6m in 2025/26. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

We will review the plans the Council has in place to close the gaps, paying particular attention to the robustness of any savings plans.

Work performed to date

- We have held a number of meetings with key officers of the Council, including the Chief Executive and s151 officer.
- We have reviewed budget reports presented to members of both the Cabinet and the Council.
- We have reviewed the going concern assessment provided by management in relation to the 2021/22 financial statements.

We will report the findings of this work in our Auditors Annual Report in December 2022.

4. Independence and ethics

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

- Kathryn Kenderdine acted as a member of the audit team of Worcestershire County Council during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn took 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 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.

We are satisfied that the matters above and proposed safeguards provide sufficient protection to enable us to remain independent to the audit of Worcestershire County Council for 2021/22. The Audit and Governance Committee, as Those Charged with Governance, confirmed their acceptance of these safeguards at their meeting in March 2021.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500 (4,500 in 2020/21)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The work is undertaken by a team independent to the audit team. This is the final year of a three year contract, which expired 30/05/21.
Audit of Worcestershire Childrens First Trust	31,500 (2021/22)	Self-Interest (because this is a recurring fee)	We also continue to carry out the audit of Worcestershire Childrens First Trust as we have done in previous years. The work is undertaken by a team independent of the County Council audit team. This is a separate audit engagement.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified some recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Ten recommendations were identified in relation to the IT control audit in 2020/21. The Council has implemented a number of these recommendations into their IT general controls environment, however there are three still in progress. These relate to improved audit logs, reviews of user roles and employee acknowledgement of Council IT policy.	<p>Management should continue to implement the remaining three recommendations as set out in the detailed IT report.</p> <p>Management response</p> <p>We will review these recommendations and move forward with implementation</p>
Low	As part of raising the bar, there is a much greater focus on the clarity of financial reporting, particularly in key areas that involve estimation and judgement. Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the recent FRC thematic review.	<p>Management need to undertake a detailed review against the Code and determine if the level of disclosure remains appropriate. Particular areas of focus should be PPE, Pensions and financial instruments. Given the additional focus on accounting estimates, management should consider working more closely with experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements.</p> <p>Management response</p> <p>We will review the Code and continue to put more detail into disclosures where required</p>
High	<p>The Council's ledger does not require independent authorisation of journal entries. We were told that individual directorates had processes to mitigate this weakness, but our testing found that this was not consistent and therefore was not a system that can be generally relied on.</p> <p>Finance staff can also post manual journals to non manual batch types. Whilst follow up audit work did not identify any evidence of management override, this could potentially lead to journals escaping any form of authorisation process.</p> <p>In general, we found that some of the Finance team were not fully familiar with some controls and processes for journals (such as authorisation, user listings and manual journals) and further guidance to staff may be beneficial. Improving controls in this process will reduce the opportunities for fraud and error.</p>	<p>Improve controls around the authorisation of journals.</p> <p>Management response</p> <p>We have had initial conversation with Systems Team about how to improve in-system and out-of-system controls</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
Medium	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. As in prior years, documentation around PPE is difficult to follow - the asset register for example is a download from E5 which doesn't display the detail we would expect. Furthermore, we noted that prior year revaluation dates are in some cases not in line with WHE's records, and prior year revalued amounts are not recorded in spreadsheets. We would recommend the client continue to try and improve their documentation around PPE.	Review whether your asset register is now fit for purpose. Management response Complete rebuild of asset register is currently underway
Low	We noted that assets held by the Council are held under an overall code (in the format YRAJ for example) however within this one asset there will be a large amount of asset "numbers". These denote the different elements of the asset, such as Land or extensions. However on reviewing the detailed asset listings, it was noted that many of these asset numbers displayed a nil or £0.01 asset value. These defunct asset numbers increase the size of the asset listings, with asset code YRAJ for example having 26 asset number but only 7 which contain genuine values. A clean up exercise is recommended to remove defunct asset numbers from the register.	Carry out a clean up exercise to remove obsolete asset numbers from the fixed asset register Management response Complete rebuild of asset register is currently underway
Low	There are a large number of negative assets in the FAR - these total (£21K) for Land & Buildings, but (£6m) for Infrastructure. On inquiry this relates to an issue in E5 which sometimes requires two assets to be created where there are multiple entries on a new asset (and these have different units of measurement). One asset will be a debit, and the other a credit - they will net off to a positive asset balance for that asset code.	Review processes to remove negative values in the asset register. Management response Complete rebuild of asset register is currently underway
Medium	There were a few areas in the audit where we identified that further guidance and training could be provided to council staff involved in financial processes. On page 7 of this report we noted that guidance on journal processes is needed. The errors found in grant income in the last two years would suggest that refresher training on the accounting treatment for grants is necessary. In addition the trivial errors we identified in the accruals process might suggest that training would help here too.	Develop training and guidance for finance staff on Management response We have incorporated training for service finance staff as part of our closedown timetable for 22/23

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Worcestershire County Council Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Worcestershire County Council and its subsidiary undertaking, Worcestershire Children First for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include PPE valuations, the valuation of the pension fund liability and the measurement of financial instruments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. During the year we evaluated our estimation process for PPE valuations and appointed a new valuer to assist us in making the estimates in relation to our assets. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - vi. there are no unrecorded liabilities, actual or contingent
 - vii. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
 - viii. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

B. Management Letter of Representation

- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as [they are immaterial to the results of the Council and its financial position at the year-end OR list reasons]. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the group and Council means that, notwithstanding any intention to liquidate the group and Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

B. Management Letter of Representation

- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on September 2022.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council

C. Audit Adjustments

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

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted
Technical Annexe	The initial draft statement of accounts had moved a number of notes which are required by the Code of Practice within the statement of accounts to a new section outside the statement. Whilst the objectives to declutter the accounts were laudable, this meant that the accounts were not Code compliant. This has been amended.	✓
Audit fees	The audit fees were initially shown as £133k and not £126k. This has now been amended.	✓
Note 15.5 details of PFI payments due	Changes were made to the service cost element figures in the note detailing future PFI payments due.	✓
Note 16.3 – Financial instruments – Nature and extent of risks arising from financial instruments	<p>The note didn't originally include the level of detail required to comply with the Code. Information had been omitted in relation to the Authority's credit risk management process and how expected credit losses have been measured. Within the disclosure checklist we noted that for credit risk management, the Authority did not disclose:</p> <p>The basis of inputs and assumptions and the estimation techniques used to:</p> <ul style="list-style-type: none"> i) Measure the 12-month and lifetime expected credit losses ii) Determine whether the credit risk of financial instruments has increased significantly since initial recognition iii) Determine whether a financial asset is a credit-impaired financial asset <p>How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macro-economic information.</p> <p>The note has now been improved.</p>	✓
Note 28-prior year adjustment	The initial draft prior year adjustments note did not include required information and has since been amended so that it complies with Code requirements.	✓
Note 6.3 DSG reserve	The format of the DSG reserve note 6.3 was amended to fully comply with the Code. This did not impact on the final reserve balance.	✓
Note 24.2	Some changes were necessary to prior year comparative figures in the senior officer remuneration note 24.2.	✓
Presentation and disclosure	Our review of the accounts highlighted some other minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation. Examples include some formatting issues and some note titles being updated.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
None				
Overall impact	£0	£0	£0	NA

C. Audit Adjustments

Adjusted misstatements

The table below provides details of adjustments identified during the audit which have been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
In reviewing creditors as part of the 2021/22 audit we noted that the creditors balance included grants received in advance which the Code requires to be separately disclosed. The value of the amount to be transferred was £8.2m. We then reviewed the 2020/21 to see if this was also the case in previous years and noted further errors. We therefore asked the Council officers to carry out a full review. Officers confirmed that there were also grants received in advance which were included in creditors as at 31/3/21 (£6.2m) but in addition noted that some grant payments had been carried forward as creditors when they should have been taken to income in 2020/21 (and then transferred to reserves) as there were no outstanding conditions. This amount was £23.2m and this would have increased the surplus in 2020/21 and reserves by £23.2m. As a result a prior year adjustment was necessary.			
Transferring creditors to grants received in advance (2021/22)	£0m	£8.2m from Creditors to GRIA	£0m
Transferring creditors to grants received in advance (2020/21)	£0m	£6.1m from Creditors to GRIA	£0m
Reducing 2020/21 creditors and thereby increasing income in 2020/21	£23.2m increase in income	£23.2m reduction to Creditors	£23.2m reduction to net expenditure

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£133,456	133,456
Total audit fees (excluding VAT)	£133,456	133,456

Grant claims

Nationally the fees for grant claims have risen across all bodies to reflect the actual cost of doing this work. At Worcestershire County Council this affected the teachers pension return only where the fee has risen from £4,500 to £7,500. Previously the fee had remained static for several years.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Certification of Teachers Pension Return	4,500	7,500
Other – CFO Insights Subscription (actually expired May 2021 but previous annual fee shown)	12,500	12,500
Total non-audit fees (excluding VAT)	£17,000	£20,000

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report.

Independent auditor's report to the members of Worcestershire County Council Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Worcestershire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

E. Audit opinion

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained in the Statement of Responsibilities (set out on page 22), the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Annual Financial Report and Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

E. Audit opinion

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 2003 and the Local Government Act 1972.

- We enquired of senior officers and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
 - Journals with a blank descriptions, as this could indicated that there is not a legitimate reason for posting a journal.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
 - journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

E. Audit opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations, and did not identify an areas of non-compliance.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - **the provisions of the applicable legislation**
 - **guidance issued by CIPFA, LASAAC and SOLACE**
 - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

[Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources](#)

[Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources](#)

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

[Responsibilities of the Authority](#)

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

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

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

E. Audit opinion

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2022. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for Worcestershire County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the;

- Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report;
- Whole of Government Accounts, and
- The Pension Fund annual report.

Use of our report

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

Signature:

Mark Stocks, Key Audit Partner

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

Birmingham

Date:



The Audit Findings for Worcestershire Pension Fund

Year ended 31 March 2022

Worcestershire Pension Fund
November 2022

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Section

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3. Independence and ethics

Appendices

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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed during July-August. Our findings are summarised on pages 4 to 17. We have identified no material errors in the financial statements. We have recommended a small number of adjustments to improve the presentation and disclosure of the financial statements which have now been amended for. These are detailed in Appendix B.

We commenced our post-statements audit in July and our audit is now substantially complete. Our findings are summarised on pages 4 to 17.

We have identified no material errors or adjustments to the financial statements and there are no matters arising that would require modification of our audit opinion.

We noted some non-material differences in the year end Fund Manager confirmations compared to the values shown in the accounts. For 2021/22, the final year end Fund Manager confirmations for all Level 3 Funds were £19.6 million greater than the estimated figure provided by the Custodian and used in the accounts. This is due to the fact the final information not being available when the accounts had to be produced. We have requested that management adjust these balances but management have not altered this balance as they do not consider that it is material to the accounts. We have requested confirmation of this decision in the letter of representation.

We have recommended a small number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix B.

The draft financial statements were presented for audit in accordance with the agreed timetable and was supported by good quality working papers and we received prompt responses to our queries.

Subject to a small number of outstanding matters, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting as detailed in Appendix D.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit approach, as previously communicated to you.

Conclusion

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

- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the excellent assistance provided by the finance team and other staff. We have successfully used a software package to share files and manage requests for information, which has helped track queries and improve the efficiency on the audit.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the materiality used for the draft financial statements due to the net assets changing significantly from that at the planning stage, resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Worcestershire Pension Fund.

	Pension Fund Amount	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	£35.5m (£33.6m)	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2022
Performance materiality	£26.8m (£25.2m)	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. In addition, the management and finance team remain stable.
Trivial matters	£1.79m (£1.6m)	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit and Governance Committee as 'Those Charged with Governance'.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We 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.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. We did note that the Council's ledger does not require independent authorisation of journal entries. By way of mitigation, the Fund do have a system of manual authorisation of journals outside of the ledger and our testing found this to be operating albeit all authorisation was carried out by the same officer.

Finance staff can also post manual journals to non manual batch types. Whilst follow up audit work did not identify any evidence of management override, this could potentially lead to journals escaping any form of authorisation process.

In general, we found that the Finance team were not fully familiar with some controls and processes for journals (such as user listings and manual journals) and further guidance to staff may be beneficial. Improving controls in this process will reduce the opportunities for fraud and error.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Worcestershire County Council as the administering body for Worcestershire Pension Fund mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Worcestershire Pension Fund.

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.

Our audit work has not identified any issues in respect of improper revenue recognition.

The expenditure cycle includes fraudulent transactions (rebutted)

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We have rebutted this presumed risk for Worcestershire County Council as the administering body for Worcestershire Pension Fund because:

- expenditure is well controlled and the Fund has a strong control environment; and
- the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.

We therefore do not consider this to be a significant risk for Worcestershire Pension Fund.

We have reconsidered this as part of our audit work on the financial statements. We have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire Pension Fund.

Our audit work has not identified any issues in respect of improper expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

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 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

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.

Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2022.

We therefore identified valuation of Level 3 investments as a significant risk.

We have:

- evaluated management's processes for valuing Level 3 investments
- 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
- independently requested year-end confirmations from investment managers and custodians
- 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. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

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

As highlighted above, our audit focuses on looking at external confirmations from both investments managers and the custodian, and as a result there will always be differences in when information is received compared to the information available when management are estimating the values for the accounts. For 2021/22, the final year end Fund Manager confirmations for all Level 3 Funds were £19.6 million greater than the estimated figure provided by the Custodian and used in the accounts. This is due to the fact the final information not being available when the accounts had to be produced. We have requested that management adjust these balances but management have not altered this balance as they do not consider that it is material to the accounts. We have requested confirmation of this decision in the letter of representation.

Our review of note 12A has identified that there are differences between the fund manager and custodian in relation to the breakdown of the purchases and sales figures, however these differences related only to the breakdown of the change during the year, and did not impact on the final net position as presented in the accounts. Please see the audit adjustments table in Appendix B for more detail.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Level 3 Investments – £724.9m

The Pension Fund has investments in pooled property funds, pooled infrastructure funds and pooled debt that in total are valued on the balance sheet as at 31 March 2022 at £725m. These investments are not traded on an open exchange/market and the valuation of the investments is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. Officers of the fund have confirmed that they are comfortable with the assertion and it is in line with their experience gained from investment advisors and others in the sector.

As outlined in our testing of the valuation of level 3 investments we have;

Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,

Considered the valuation techniques used against industry practice, and

Reviewed the adequacy of disclosures of estimate in the financial statements.

The accounts include some disclosure on the level of estimation uncertainty relating to level 3 investments, however to fully comply with the Code and the expectation of the FRC thematic review in this area there should be a greater level of detail on the nature of the assumptions, and the sensitivity of each assumption. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. Management have declined to amend the disclosure.

We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

We consider that the disclosures should be amended to comply with FRC guidance.

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,747.5m	Level 2 investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board.	<p>Similar to our approach for level 3 investments, we have; Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the valuation techniques used against industry practice, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p> <p>The accounts include some disclosure on the level of estimation uncertainty relating to level 2 investments, however to fully comply with the Code and the expectation of the FRC thematic review in this area there should be a greater level of detail on the nature of the assumptions, and the sensitivity of each assumption. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. Management have declined to amend the disclosure.</p> <p>We asked our valuations team to carry out an independent estimation of the value of a sample of derivatives contracts held by the Fund. The extrapolated difference for this sample was an increase of £8.1m for assets and an increase of £4.7m for liabilities.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p> <p>We consider that the disclosures should be amended to comply with FRC guidance.</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Pension Fund Liability	The fund has elected to take 'option B' from IAS 26 when considering the actuarial present value of promised retirement benefits, and as such presents this as a note to the accounts. Management have obtained this information from the actuary for the fund. The actuary has been provided with all of the necessary information using the annual returns required, which results in the actuary producing the valuation and required reporting paragraphs. 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. The Council's Pension & Investments Manager communicates with the externally appointed actuary throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the data upon which the valuation has been based</p> <p>Considered the reasonableness of the assumptions used, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external and independent Management advisors and Investment Fund Managers. 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. Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks . Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the valuation techniques used against industry practice, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Note 25 – Critical judgements in Applying Accounting Policies	The fund have included a critical judgement in relation to the methodology applied in relation to the IAS 19 assumptions.	The audit team do not consider the statements made to relate to critical accounting judgements as described by the Code. The expectation of the FRC as described in its thematic review of this area, was such that these disclosures should be limited to the judgements management make when applying it's significant accounting policies, and the judgement made must clearly distinguish the material affect on the reported numbers. Management have declined to amend the disclosure.	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p> <p>We consider that the disclosures should be amended to comply with FRC guidance.</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment and Recommendations

To support the opinion on the financial statements during the previous financial year we completed an audit of the IT general controls as they affect the financial statements. A separate report was provided to management, which included a detailed consideration of the issue raised and a recommendation. Management accepted all of the recommendations in the report and provided a management response. Ten control weaknesses were noted in general IT controls, these can be summarised as follows:

- User access for terminated employees/ leavers not disabled in a timely manner
- Lack of documentation over Altair change of access rights
- Lack of documentation over testing performed for Altair upgrades
- Lack of review of information security event/audit logs
- Insufficient periodic review of user access
- Lack of documented IT operations policies
- Lack of documentation/evidence on E5 batch job completion process
- Non-compliance with the password policy
- Lack of process to proactively review IT service provider assurance reports
- No employee acknowledgement of the WCC IT Policies

The report included 6 recommendations where there were considered to be ineffective control's which could create a risk of inconsequential misstatements within the financial statements, and 4 recommendations where we identified an opportunity to improve control. We followed up on progress as part of our interim audit and found that 3 recommendations had not been fully implemented. These relate to: improved audit logs, reviews of user roles and employee acknowledgement of Council IT policy.

We will follow up progress at our next audit.

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A final letter of representation has been requested from the Pension Fund. A draft is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



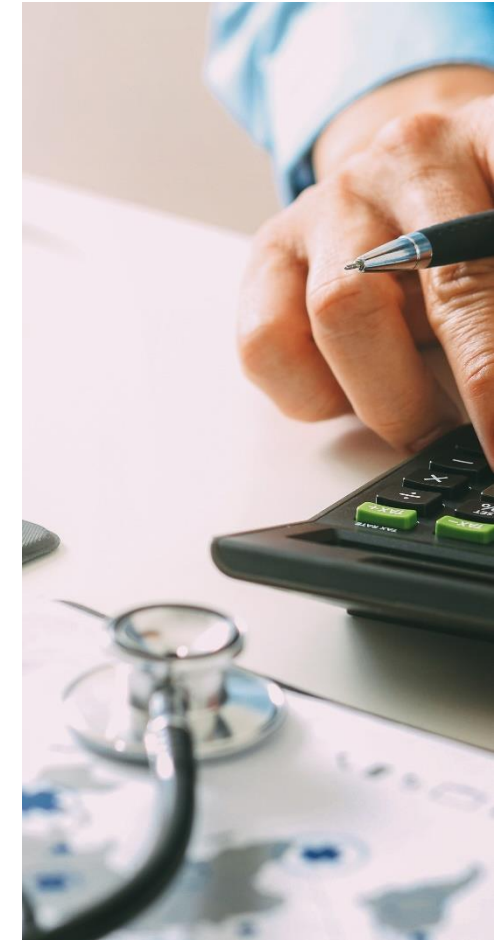
Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	Our review of disclosures identified some errors. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made. We plan to issue an unmodified opinion in this respect – refer to appendix D
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until December 2022 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.



3. Independence and ethics

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

- Kathryn Kenderdine acted as the in charge auditor for the audit of Worcestershire Pension Fund during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn took 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 2021/22 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 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.

We are satisfied that the matter above and proposed safeguards provide sufficient protection to enable us to remain independent to the audit of Worcestershire Pension Fund for 2021/22.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies	8,500 (2020/21) and 15,000 (2021/22)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit Related			
	None		

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified recommendations for the Pension Fund during the course of our 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Ten recommendations were identified in relation to the IT control audit in 2020/21. The Council has implemented a number of these recommendations into their IT general controls environment, however there are three still in progress. These relate to improved audit logs, reviews of user roles and employee acknowledgement of Council IT policy.	Management should continue to implement the recommendations as set out in the detailed IT report. Response: Management will continue to implement the recommendations agreed in the IT report
Low	Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by ISA 540 and as described in the most recent FRC thematic review.	Given the additional focus on accounting estimates, management should consider working more closely with fund managers and other experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements. Response:; Management do work closely with managers and endeavour to obtain as much detail as possible for the disclosures in relation to both estimation and critical judgements. Management will continue to review its existing working practices to see if these can be improved.
High	We noted some weaknesses on page 6 in relation to the authorisation of journals which may increase the risk of fraud and error.	Improve controls around the authorisation of journals. Response: The Pension Fund does a monthly reconciliation to ensure that the journals are authorised by staff within the Pensions Team. However we will look to review our controls around the authorisation of journals
Low	In our testing of a sample of pension benefits we noted a case where a pensioner had disputed the amounts due and no provision was made at all in the accounts during the dispute period even for the lower rates.	Ensure provision is always made in the accounts for disputed payments. Response: We will look to ensure provision in the accounts for disputed payments in future.

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Audit Adjustments

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

Impact of adjusted misstatements

The audit has not identified any adjusting misstatements for the year ending 31 March 2022.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Note 20 Related parties	Short term benefits within the key management personnel table were slightly understated by £3,000. This has now been amended	✓
Contractual commitments and contingent liabilities – Note 21	Figures for two Walton Street Funds were taken from 31 December 2021 data rather than 31 March 2022 year end data resulting in an overstatement of £5m. This has now been adjusted.	✓
Other information-explanatory foreword	There were a couple of instances where other information contained in the explanatory foreword did not reconcile with the accounts. The first related to investment returns on page 4 which suggested the returns had increased in the year by £264m rather than £367m. This has now been amended. The second related to the percentage distribution of Fund investments on page 8 which was initially incorrect for three fund types. This has been amended.	✓
Note 8-administrative expenses	Audit fees were slightly overstated in note 8. This has now been amended.	✓
Note 12a-sales and purchases	For the River and Mercantile Fund, both purchases and sales in the accounts as notified by the Custodian were both overstated by £328m against that notified by the Fund Manager but the year end balance was correct.	✓
Presentation and disclosure	Our review of the accounts highlighted some other minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes have been made to the draft accounts submitted for audit. Examples include some formatting issues, some titles to be updated for the correct year and an error where a number had been transposed incorrectly.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

The audit team have considered the impact of any unadjusted errors from the prior year and are satisfied that they do not impact on the balances as at 31 March 2022.



C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£32,473	32,473
Total audit fees (excluding VAT)	£32,473	32,473

The fees reconcile to the financial statements.

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Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
IAS 19 Assurance letters for admitted bodies	£8,500	*£15,000
Total non-audit fees (excluding VAT)	£8,500	£8,500

* For 2021/22 IAS 19 letters of assurance were provided to the following admitted bodies of Worcestershire Pension Fund. Across the Firm we have had to raise the fees to reflect the current cost of doing the work to provide this assurance. Pension Funds are at liberty to recharge these costs to admitted bodies.

Worcestershire County Council

Worcester City Council

Wychavon Council

Wyre Forest District Council

Malvern Hills District Council

Hereford and Worcester Fire and Rescue Authority

Redditch Borough Council

Bromsgrove District Council

West Mercia Police

Herefordshire Council

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

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

Opinion

We have audited the financial statements of Worcestershire Pension Fund (the 'Pension Fund') administered by Worcestershire County Council (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements' section of this report.

D. Audit opinion

Other information

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

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities set out on page 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Financial Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

D. Audit opinion

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- We enquired of senior officers and the Audit and Governance Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
 - Journals with a blank description, as this could indicate that there is not a legitimate reason for posting a journal.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
 - journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

D. Audit opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and did not identify any areas of non-compliance.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - **the provisions of the applicable legislation**
 - **guidance issued by CIPFA, LASAAC and SOLACE**
 - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

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

[Signature]

Mark Stocks Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham

E. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Worcestershire Pension Fund Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Worcestershire Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

- iv. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- v. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- vi. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of level 2 and level 3 investments and the actuarial present value of promised retirement benefits for the purpose of IAS26. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Fund has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

E. Management Letter of Representation

- vii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- viii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- ix. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- x. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards
- xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

- a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statement
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

E. Management Letter of Representation

- xiv. We have communicated to you all deficiencies in internal control of which management is aware.
- xv. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xviii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xix. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xx. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Audit and Governance Committee at its meeting on XXX 2022.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Fund



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AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

ANNUAL GOVERNANCE STATEMENT 2021/22

Recommendation

- 1. The Chief Financial Officer recommends that the Annual Governance Statement 2021/22 be noted.**

Background

2. The Council is required, as part of its ongoing review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2021/22. The AGS forms part of the Annual Statement of Accounts.
3. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2021/22 and considers any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS outlines the actions taken or proposed to address governance issues identified.
4. The AGS is completed by the Corporate Risk Management Group based on information provided by senior officers. The evidence comes from a variety of sources, including service plans, relevant lead officers within the organisation, internal and external auditors and inspection agencies.
5. There have been no alterations made to the draft Annual Governance Statement noted by the Committee in July 2022, and published as part of the unaudited Statement of Accounts.

Content

6. The AGS assesses the effectiveness of the Council's governance arrangements by reference to the principles of good governance in accordance with the CIPFA / SoLACE Delivering Good Governance in Local Government Framework and identified areas where it is recognised that governance arrangements could be strengthened. These principles aim to ensure that the Council is:
 - Conducting our business in accordance with all relevant laws and regulations;
 - Safeguarding and properly accounting for public money; and
 - Using resources economically, efficiently and effectively to achieve agreed priorities which benefit local people.

7. As part of the review of the Council's effectiveness significant internal control issues affecting the Council are identified. In accordance with CIPFA guidance, an issue is regarded as significant if:

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

8. The AGS includes the following governance issues as areas for improvement. Items which were included in the 2020/21 AGS and remain governance issues following review in 2021/22 are:

- Serious harm or death of a child or young person - specific priorities for continual development and implementation are included in the Worcestershire Children First Business Plan and detailed within Social Care and Safeguarding Business Plan focussing on Ofsted recommendations for areas of improvement.
- Activity exceeds budget allocation – regular budget monitoring and a focus on demand / activity continues to strengthen and be a focus of our reporting and monitoring.
- Serious harm or death of an adult with care and support needs – the Council will continue to monitor and manage through the Safeguarding Adults Board, supported by teams where staff are trained and benchmarked against the safeguarding competency framework.

9. The following new issues have been identified as part of the 2021/22 review process:

- Ensuring a financially sustainable medium-term budget including monitoring the ongoing financial impact of COVID-19 on budget income and expenditure.

- Non-compliance with Corporate Policies and Procedures across all disciplines.

10. A detailed action plan to ensure that work is undertaken to deliver the areas where it is recognised that governance arrangements could be strengthened will be developed. Progress against the plan will be reported to the Audit and Governance Committee on a quarterly basis.

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

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

Contact Points

Specific Contact Points for this report

Michael Hudson, Chief Financial Officer

Tel: 01905 845560

Email: mhudson@worcestershire.gov.uk

Chris Bird, Chief Accountant

Tel: 01905 846994

Email: cbird1@worcschildrenfirst.org.uk

Supporting Information

- Appendix: Annual Governance Statement 2021/22

Background Papers

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

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**Worcestershire County Council
Annual Governance Statement
2021/22**

Introduction

The Annual Governance Statement is a review of our activities to ensure that the County Council is carrying out its functions effectively. This statement explains how the County Council has discharged its governance responsibilities during 2021/22 and the key governance mechanisms in place.

Our risk management process is a key part of our governance arrangements and provides assurance that:

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

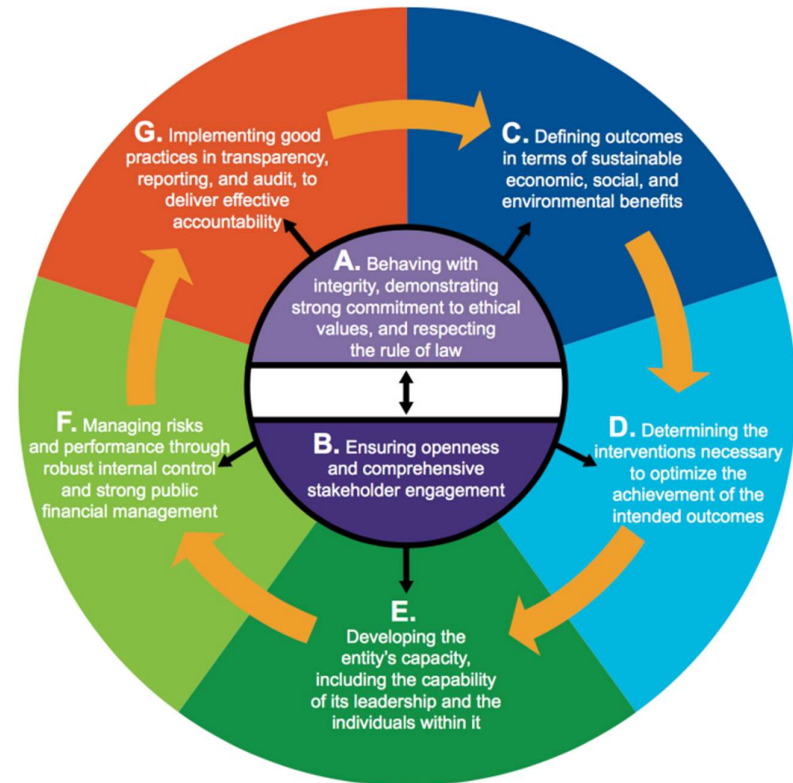
The purpose of the Governance Framework

The County Council is committed to improving governance through a process of continual evaluation and review, delivered through the seven principles of good governance as identified in the Delivering Good Governance in Local Government Framework 2016 and supported by processes which strengthen corporate governance such as the Corporate Risk Management Group.

Our system of internal control is designed to manage risk to a reasonable level and is based on an ongoing process to identify and manage risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage

them efficiently, effectively and economically. It cannot eliminate all risk of failure but provides reasonable assurance of effectiveness.

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016. The Council aims to achieve good standards of governance by adhering to the seven core principles below:



Overview of Governance Framework

The governance framework outlined above has been in place throughout 2021/22 and maintained to the date of the approval of the Statement of Accounts. Key governance arrangements during 2021/22 comprised the following (full detail is provided in the County Council's Constitution).

The Council has a Leader and Cabinet executive model, with the following key responsibilities:

The Cabinet	The Leader and the Cabinet are responsible for all County Council's functions except those required by law or the Constitution to be those of full Council. Executive functions can be discharged, as delegated by the County Council's Constitution to the relevant committee, individual cabinet member or officer.
Audit & Governance Committee	The Committee oversees the audit and corporate governance arrangements of the County Council including annual audit plans and reports of internal and external auditors, the County Council's system of internal control, risk management and prevention and detection of fraud and corruption.
Overview & Scrutiny Committees	The Board's main responsibilities include commissioning work for scrutiny panels and establishing scrutiny task groups to ensure that significant issues are subject to appropriate review and scrutiny.
Standard & Ethics Committee	The Committee ensures that high standards of conduct are maintained by County Councillors and co-opted members by reference to the Council's Code of Conduct.

Functions, powers and duties are delegated to officers by the Council, Leader and Cabinet, with the following key responsibilities:

Strategic Leadership Team	The County Council's Strategic Leadership Team is collectively responsible for ensuring that effective governance arrangements are in place and are subject to regular review. The Team provide leadership, determine policy and uphold expected standards of behaviour.
Chief Officer Group	The Chief Officer Group has collective responsibility for overseeing the implementation of cross organisational strategy and the development and implementation of operational plans, policies,



	procedures and budgets prior to Senior Leadership Team and Committee approval. The Group promotes robust, fit for purpose governance across the County Council.
Head of Paid Service (the Chief Executive)	The Chief Executive is responsible for overseeing policy development and planning, corporate performance, and community leadership, alongside the effective leadership, management and performance of the Strategic Leadership Team.
Assistant Director for Legal and Governance (the Monitoring Officer)	The Monitoring Officer is responsible for maintaining the Constitution and ensuring that functions act in accordance with the Constitution and relevant legal requirements. These arrangements include overseeing the ethical conduct of the Council and the production of associated codes, conventions and protocols.
Chief Finance Officer	The Chief Financial Officer is responsible for the oversight and delivery of financial management arrangements; achieved through a robust financial control framework, financial regulations, standing orders, a scheme of delegation and an independent and objective Internal Audit function.
Chief Internal Auditor and Head of Risk Management	<p>The Chief Internal Auditor and Head of Risk Management is responsible for ensuring effective management of the Council's risks, including evaluating controls and mitigations as part of a risk-based internal audit approach.</p> <p>The Risk and Assurance Manager, supported by the Corporate Risk Management Group, maintains the Corporate Risk Register, monitoring identified risks, controls and mitigating actions. Directorate Leadership Teams monitor and review directorate risk registers and allocate resources to ensure risks management arrangements are effective.</p>
External Audit	External Audit report on the Statement of Accounts and review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Review of Effectiveness

The review of effectiveness is informed by the work of Chief Officers and senior managers with responsibility for the design and maintenance of an effective governance environment. It is also informed by the work of Internal Audit and the annual opinion provided by the Chief Internal Auditor. The results of the annual review of the effectiveness of the Council's governance arrangements during 2021/22 are set out in the table below and demonstrate how the Council has complied with the seven principles of the CIPFA/Solace Framework. Areas for improvement are included as part of the assessment and a detailed action plan will be developed to ensure that work is undertaken to deliver these improvements. Progress against the plan will be reported to the Audit and Governance Committee on a quarterly basis.

Principle	Assessment of the effectiveness of governance arrangements during 2021/22
<p>Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<p>Key aspects of the Council's governance arrangements during 2021/22:</p> <p>We have arrangements in place to provide assurance that our values are upheld, and that members and officers demonstrate high standards of conduct and behaviour to comply with laws and regulations.</p> <p>These include:</p> <ul style="list-style-type: none"> • Codes of conduct for officers and members; • The inclusion of ethical values in policies and procedures for all areas; • A complaints procedure ensuring appropriate investigation and response • A Whistleblowing Policy which enables employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns; • A commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010; and • Our Constitution, which sets out the conditions to ensure that all officers, key post holders and members can fulfil their responsibilities in accordance with legislative requirements. Roles, responsibilities and delegated authority for individual Members, the Council, Cabinet and senior officers are documented. • A review of the Constitution has started. • Formal recognition of the Trade Unions in our processes and change.

	<p>Areas where it is recognised that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • There is a need to regularly review the Council's Constitution and related policies and procedures to ensure that Officer and Member responsibilities are clearly documented and promote a culture of accountability and strong ethical values. As a result of Covid-19 prioritisation a review is needed, this will include improvements to strengthen the monitoring of compliance with legislative and governance requirements should be included in this review with clearly communicated consequences where behaviours do not demonstrate integrity. • Alongside this a need for training of Officers and Members to increase constitutional awareness and individual responsibility for compliance will ensure that these values become embedded in behaviour. • Processes to support the delivery of the Council's ethical values should be strengthened in areas such as Declarations and Registers of Interest, using a model of training and declaration, to promote consistency and transparency. • A review of Members' roles and delegations on boards and companies.
<p>Core Principle B: Ensuring openness and comprehensive stakeholder engagement</p>	<p>Key aspects of the Council's governance arrangements during 2021/22:</p> <p>The Chief Executive, Chief Officer Group and Strategic Leadership Team value and are committed to ensuring every employee is engaged and feedback is sought, listened to and acted upon. There are strong relationships with the Council's recognised Trade Unions and the Council remains committed to building and maintaining strong employee relations. Monthly Staff Briefings are held by the Chief Executive and Senior Leaders.</p> <p>Engagement includes:</p> <ul style="list-style-type: none"> • In response to increased remote working, the Council has strengthened engagement with staff through regular communication from the Chief Executive and at directorate level. The use of Slido enables staff to engage directly with the Chief Executive. • Improvements in technology facilitate hybrid working practices and support the pastoral needs of staff. • Annual Staff Survey. Responses have informed the development of the Workforce Strategy 2021-2024. Wellbeing and career development insight and feedback is shared at mid-year and end of year review points.

	<ul style="list-style-type: none"> • In 2021/22, the Worcestershire Viewpoint Survey 2021 enabled Councillors and officers to engage with members of the local community to receive feedback and monitor public perception in relation to local priorities, satisfaction with Council services and level of engagement. • Feedback from events and surveys help to inform the Council's four corporate priorities: supporting Children and families, promoting Health and Well Being, protecting the Environment and championing Open for Business. <p>Areas where it is recognised that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • Improved co-ordination of the Council's external inspection and regulatory report framework, to inform assurance and improve information sharing and collaboration across stakeholders. • There is a need for increased clarity, via the review of the Council's Constitution, of elected Member responsibilities relating to engagement and communication with Officers, residents and businesses.
<p>Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <p>Our Corporate Plan: Shaping Worcestershire's Future 2017-22, identifies four key priorities that help us shape the future vision for Worcestershire and focus the delivery of our services. The refreshed Corporate Plan 2022-27 continues with the Council's priorities building on the progress made in recent years to drive improvements for the County to 2027.</p> <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 20px;">   </div> <div> <p>Open for Business – we have a significant programme of improvements in workforce skills, employment, infrastructure and productivity. We are aiming to become a financially self-sufficient Council and to achieve this aim we are promoting and supporting businesses in the County and those looking to relocate here.</p> <p>Children and Families – we have a strong focus on improving outcomes for the children, young people and families of Worcestershire. We support schools with achieving a good or outstanding rating by Ofsted and facilitating young people achieving five or more good GCSEs and support young people moving successfully into employment. These services are delivered in conjunction with our wholly owned company, Worcestershire Children First.</p> </div> </div>



The Environment - Worcestershire's environment is one of our key features and contributes to enhancing the quality of life for residents and visitors. We are committed to improving our infrastructure networks, including transport and digital technology to support business and encourage investment. We also have a key focus on minimising waste which goes to landfill.



Health and Wellbeing – we are working with local partners to support our residents to be healthier, live longer, have better quality of life and remain independent for as long as possible. Our focus on adult social care aims to keep people with care and support needs as independent as possible by providing choice in how to live their lives.

The Council's Sustainability Policy promotes the principles of sustainable development through: green economy, action to tackle climate change, protecting and enhancing the natural environment and fairness and improving wellbeing. To demonstrate its sustainability policy commitment the Council has committed to:

- Promoting sustainability at a strategic level;
- Lead by example in addressing the Council's operational impacts on the community and environment; and
- Promoting sustainable development throughout the county.

The Council reports on progress through the annual Corporate Environmental Report.

Areas where it is recognised that governance arrangements could be further strengthened include:

- The need for a mechanism to enable transparent and timely performance reporting (to replace the Balanced Scorecard) linked to the priorities and objectives outlined in the Corporate Plan 2022-27.
- A focus on Environmental, Social and Governance arrangements, including specific internal audit assignments and as part of wider deliverables with a focus on measurable outcomes.

<p>Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <p>The County Council's planning process works to support and optimise delivery and identify and mitigate any risks.</p> <ul style="list-style-type: none"> • Each key area of focus identifies several aims and targets and responsibility for achieving these lies with individual directorates, and relevant aims and targets are included in individual service delivery plans. • Risks are managed by the Chief Internal Auditor and Head of Risk Management, supported by the Risk and Assurance Manager and Corporate Risk Management Group. The process has been embedded during 2021/22 with a closer link to the audit programme and an increased focus on identifying emerging risks. • The Council has robust processes in place to support financial planning and sustainability. The budget is informed by the Medium-Term Financial Plan with key risks and assumptions clearly identified and reported to members, supported by a strategy and financial planning process. Budget proposals are subject to review and scrutiny by relevant stakeholders, including elected Members as well as through meetings with Trade Union Representatives and the Schools Forum. In 2020/21, the external audit report identified no weaknesses in the Council's arrangements to ensure financial sustainability and no improvement recommendations were made. • Progress against the Corporate Plan is monitored and reported to councillors on a regular basis. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • Increased strategic engagement with the risk management process, including nominating a strategic lead at SLT level to co-ordinate the identification of risks and mitigating actions, to ensure that strategic decisions are informed by effective consideration of relevant risks. • In addition to improvements in performance monitoring arrangements, there is a need for a robust system of accountability for performance against corporate, financial and management targets.
<p>Core Principle E: Developing the entity's capacity, including the</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p>

<p>capability of its leadership and the individuals within it</p>	<ul style="list-style-type: none"> • To deliver our objectives, we rely on our staff to carry on the great work they already do daily which is underpinned by Our People Values: <ul style="list-style-type: none"> ○ Customer Focus - putting the customer at the heart of everything we do ○ 'Can do' Culture – being proactive to achieve excellence ○ Freedom within Boundaries – courage to make constructive change • Our Workforce Strategy 2021 - 2024 is designed to build a workforce with personal and collective organisational resilience. The strategy is to be used by each Service area to develop their annual workforce plans, supported by their HR Operations Partners • Mandatory learning is in place for all staff and monitored by directorate leadership teams. The Council has launched a new learning management system for 2022/23, which supports the Workforce Strategy by enhancing the learning experience of staff and enabling greater transparency for employees and managers. • Our Annual Performance Review Cycle forms a key part of our organisational workforce planning. Employees and line managers meet regularly to plan and monitor progress against personal and organisational objectives and support employee wellbeing. Indicative ratings are recorded at mid-year review point, with formal ratings recorded at end of year performance reviews. 100% of eligible employees had an end of year performance review 2021/22. • CIPFA published the Financial Management (FM) Code in October 2019. The Code sets out 17 Financial Management Standards against which local authorities are required to perform a self-assessment. The results of the 2021/22 self-assessment will be presented to Audit & Governance Committee in July 2022 and actions to address areas identified for improvement will be implemented during 2022/23. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • The capacity and capability of Members and Officers should be further developed through enhanced arrangements for tailored training relevant to individual roles and responsibilities, with core competencies including finance, HR and decision making at the fore of that. • There is a need to promote management accountability and communicate consequences for non-compliance in all Council policies.
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	<ul style="list-style-type: none"> • The development of audit arrangements to review the effectiveness of the performance cycle and highlight areas for improvement.
<p>Core Principle F: Managing risks and performance through robust internal control and strong public financial management</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <ul style="list-style-type: none"> • Risk management involves the identification, analysis and control of threats or events that adversely affect the achievement of the County Council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The Risk Management Strategy details the methodology for evaluating corporate risk management arrangements and its delivery is supported by the Corporate Risk Management Group. • The County Council's Anti-Fraud and Corruption Strategy embeds effective standards in countering fraud, corruption and theft. The Chief Financial Officer is responsible for ensuring this Strategy is applied and that the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is followed. • The County Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. • Financial Regulations form part of the Constitution and set out our financial management framework for ensuring we make the best use of the money we have available to spend. It outlines the financial roles and responsibilities for staff and Members and provides a framework for financial decision-making. Where there are specific statutory powers and duties the Financial Regulations seek to ensure these are duly complied with, as well as reflecting best professional practice and decision-making. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • A review of the Constitution and enhanced training across Officers and Members to ensure responsibilities are clear as noted above at Core Principal A. This should include the Council's contract procedure rules. • Monitoring arrangements to identify and take action to address issues of non-compliance with corporate procedures. • Clearer links between the governance framework and decision making ability to ensure activity is aligned to policies and procedures and supported by robust internal controls.

<p>Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability</p>	<p>Key aspects of the Council's governance arrangements during 2021/22 include:</p> <ul style="list-style-type: none"> • A large amount of information is available on the County Council website which gives details of the working of the organisation, what we spend, and how our decisions are made. • The Forward Plan provides information about the matters on which the County Council will make decisions. Formal agenda, reports and minutes for all committee meetings are published on our website which ensures that people know what decisions the County Council is planning to take, and the decisions taken. • Our Monitoring Officer has a specific duty to ensure the County Council, its officers and elected councillors maintain the highest standards in all they do. • Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit. • We are registered as a Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. We have a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as arrangements for members of the public to access information. We have also adopted the model publication scheme produced by the Information Commissioner's Office. <p>Areas where it is recognised that that governance arrangements could be further strengthened include:</p> <ul style="list-style-type: none"> • To ensure that there is an effective and transparent scrutiny process, a strengthening of arrangements for briefing sessions between Members and Officers. • Improved arrangements for cross-party briefings and working groups to ensure Members have sight of key issues to enable informed decision making. • Greater focus on the Council's performance measures and cohesive public reporting through improved performance monitoring and holding to account against corporate targets.
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Audit and Audit Assurances

The Council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and an assessment of the County Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. In 2020/21, Grant Thornton gave an unqualified audit opinion on the financial statements with no significant weaknesses identified in our Value for Money (VFM) arrangements.

Internal audit services are provided by the County Council's in-house team. The team's role is to enhance and protect the County Council's value by providing risk-based and objective assurance, advice and insight. It is responsible for reviewing the adequacy of internal controls across all areas of the County Council and its services are managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

The work of the Internal Audit team is supported by external providers for specialist reviews such as technical audits of IT systems. Further assurance is provided by reviews undertaken by external agencies including OFSTED, the Care Quality Commission, the Office of the Information Commissioner and other Local Authority Inspectorates.

The Audit & Governance Committee approve the Internal Audit Charter and Audit Plan which outline the role of Internal Audit, its

responsibilities and independence and the planned programme of audit work.

A flexible audit plan has enabled work to be focused on key risks and the Chief Internal Auditor has maintained close links with the leadership of the Council to ensure that adequate assurance and organisational coverage is delivered. Based on the results of assurance and advisory work undertaken during the year, the Chief Internal Auditor's annual opinion is that the control environment provides **moderate assurance** that the significant risks facing the County Council are addressed.

Significant Governance Considerations

Recurrent Considerations / Brought Forward from 2020/21	Update on Progress/Action taken to address the issue in 2021/22
<p>Serious harm or death of a child or young person Safeguarding risk because of serious harm or death of a child or failure to safeguard children. Reputational risk as a result of poor inspection or service breakdown.</p>	<p>Safeguarding issues continue to be monitored and managed through the WCF Governance Structures and through partnership working with the Worcestershire Safeguarding Children Partnership (WSCP) and other local strategic partners. Quality Assurance measures are in place. Safeguarding and activity has been monitored by the WSCP Safeguarding Practice Review Board and Get Safe Partnership Board. Our sustained improvement in Children’s Social Care has been validated through the year from an Ofsted visit in July 2021 focussing on the Family Front Door and the DfE confirming in November 2021 the removal of statutory direction placed on the council, we now enter a period of “support and supervision” in line with all authorities who exit formal intervention.</p>
<p>Activity exceeds budget allocation Inadequate budgets and / or ineffective financial management will impact on the County Council’s ability to effectively provide services and impair our ability to forward plan. The level of earmarked and general reserves could also be impacted by any unplanned draw down.</p>	<p>Regular budget monitoring and forecasting remain a focus of our financial management processes. Management accounts, which report actual income and expenditure against budgeted and forecast performance, have been prepared on a monthly basis and the achievement of savings targets and use of Council reserves has been monitored throughout the year as part of ongoing activity to consider financial sustainability and inform our assessment of going concern.</p>
<p>Serious harm or death of an adult with care and support needs A safeguarding risk because of serious harm / death from failure to safeguard an adult with care and support needs, whether the local authority is meeting those needs or not. We also face reputational risk as a result of service breakdown.</p>	<p>A Safeguarding Adult Board is in place with representation from safeguarding partners. A centralised Adult Safeguarding Team located within the Safeguarding Hub ensures competency of staff, information sharing and consistency in decision making. The Adult Safeguarding Team are aligned with the Area Teams and 3 Conversations processes. Staff are assessed against WSAB safeguarding competency framework. As part of the CQC assurance self-assessment (pending CQC inspection of local authority adult social care services as of April 2023) the effectiveness of both the Safeguarding Team and Safeguarding Adults Board will be reviewed, and outcomes of safeguarding process and practice will be assessed against the statutory safeguarding framework and how effectively we have embedded the ‘Making Safeguarding Personal’ approach.</p>
<p>Consideration of the response to and recovery from the impact of COVID-19 on residents and the local economy, including any legacy impact on care provision.</p>	<p>The impact of increased expenditure and lost income has been monitored as part of routine financial monitoring activity and reported to Central Government in line with deadlines throughout the year</p>

2021/22 New Governance Considerations	Identified Actions
<p>Ensuring a financial sustainable medium-term budget including monitoring the ongoing financial impact of COVID-19 on budgeted income and expenditure.</p>	<p>The continuing impact of COVID-19 has been a key consideration in the Council's financial planning activity and the 2022/23 budget setting process. Where COVID-19 grant funding has been used in the year to support services in their response to and recovery from COVID-19, work to identify recurrent expenditure and identify alternative funding streams is in progress.</p>
<p>Non-compliance with Corporate Policies and Procedures across all disciplines.</p>	<p>A review of the Council's Constitution and supporting policies and procedures will be performed to ensure that responsibility and accountability is defined and the consequences for non-compliance across Officers and Members are clearly communicated and that action is taken where instances of non-compliance are identified.</p>

Issues identified for 2022/23

A number of the issues and corresponding action plans noted above will continue to be the key focus for the County Council's leadership in 2022/23:

- Financial Management & Resilience: ensuring that financial monitoring is supported by a robust and realistic budget and effective and timely in-year monitoring of performance against budget and delivery of agreed savings plans.
- An assurance gap analysis of decision making, including boards and roles of directors to help drive a constitutional refresh to support and strengthen effective business decision making. This will include schemes of delegation and contract procedure rules.
- Strengthen the Council's performance framework, including service plans linked to performance and medium-term financial plans.
- Strengthen the process around capital decision making, including business cases.
- Further enhance the working between Officers and Members, including Officer Register of Interests.
- Focus on core competency training and development for all employees, in particular HR, finance, decision making and performance management.

Certification

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

Paul Robinson

Chief Executive

Date:

Simon Geraghty

Leader of the County Council

Date:

AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

APPOINTMENT OF EXTERNAL AUDITORS

Recommendation

1. **The Chief Financial Officer recommends that the appointment of Grant Thornton as the auditor of Worcestershire County Council and Worcestershire Pension Fund for five years from 2023/24 be noted.**

Introduction

2. Under the Local Audit and Accountability Act 2014, the Council is required to appoint an auditor to audit its Statement of Accounts each financial year.
3. The external audit of local authorities was previously a responsibility of the Audit Commission, established in 1983 for this purpose. The Local Audit and Accountability Act 2014 abolished the Audit Commission as at 31 March 2015 and its functions have since been delivered via the Public Sector Audit Appointments (PSAA), National Audit Office (NAO), Financial Reporting Council (FRC) and the Cabinet Office.
4. The Council's current external auditor is Grant Thornton UK LLP and this appointment covers the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointments arrangements established by PSAA for the period covering the accounts for the five-year period from 2018/19 to 2022/23.
5. In December 2021, the Council opted in to the PSAA arrangements for procurement covering audits for 2023/24 to 2027/28.

Procurement of External Audit for the period 2023/24 to 2027/28

6. In developing appointment proposals, PSAA considered information provided from both opted-in bodies and audit firms, and sought to balance a range of factors including:
 - auditor independence, the most critical of all the factors;
 - joint/shared working arrangements and information from bodies, where we have prioritised those requests that are most relevant to the auditor's responsibilities;
 - our commitments to the firms under the audit contracts;
 - bodies' main offices and firms' geographical preferences;
 - the status of prior years' audits; and

- continuity of auditor where appropriate.

7. In October 2022, PSAA advised the Council (through the Chief Finance Officer) that Grant Thornton were the proposed appointment for external auditors to both Worcestershire County Council and the Worcestershire Pension Fund for the period 2023/24 to 2027/28

8. Following conversation with key stakeholders including the Leader of the Council, the Chief Finance Officer has sent acceptance of this proposal to PSAA.

9. Local Authorities have been advised that audit fees for the period will be significantly increased, due to increased scope and complexity of audits, and to ensure capacity and sustainability in the local audit market. For Worcestershire, current assumptions are for additional costs in the region of £0.2m.

Contact Points

Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, mhudson@worcestershire.gov.uk

Chris Bird, Chief Accountant, 01905 846994, cbird1@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

30 NOVEMBER 2022

ANNUAL GOVERNANCE UPDATE

Recommendations

- 1. The Chief Financial Officer recommends that the Annual Governance update be noted.**

Background

2. The Audit and Governance Committee received the Annual Governance Statement at its July meeting, as part of that an action plan was provided to Committee. An update was provided to the September Committee and this report gives the Committee the latest update.

Progress

3. An update on the actions is attached as an Appendix to this report, this shows:
 - Overall, the actions are on time and being progressed.
 - There has been some delay arising from the recent departure of the Monitoring Officer.
4. A large proportion of this work is due to be delivered in the final quarter of this year and as such this progress is broadly as expected.

Supporting Information

Appendix - Annual Governance Statement 2021/22 Action Plan Progress

Contact Points

Specific Contact Points for this report
Michael Hudson, Chief Financial Officer
Tel: 01905 726268
Email: mhudson@worcestershire.gov.uk

Background Papers

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

Annual Governance Statement 2021/22 Action Plan Progress

Task	How	Progress
<p>Financial Management & Resilience: ensuring that financial monitoring is supported by a robust and realistic budget and effective and timely in-year monitoring of performance against budget and delivery of agreed savings plans.</p>	<p>The Finance Improvement Programme has a series of projects to undertake work on financial reporting, controls and E5 maximisation.</p> <p>This will be linked to the revisions / interdependency below relating to improvements in the coming financial year to the performance and business planning framework.</p> <p>Agree the expectancy and support with SLT/COG</p> <p>Move forward on self-service, with clear roles and accountability (linked to training below), for example ensuring budget for spend is secured before any decision is taken and that decision is in line with the scheme of delegation also noted below.</p>	<p>Overall, the FIP Project is on schedule. The FIP has been agreed with Chief Officer Group (COG). A Separate update on the FIP Project is included in the agenda items on the same Committee as this report.</p> <p>An intranet development project team is in place but has been delayed due to a VAT inspection drawing key personnel and the corporate IT resource still required for the Internet Development. This is due to start early 2023.</p> <p>Work is underway on Open Banking which will improve the way we take and make payments. Contracts awards are being explored.</p> <p>Discussions are underway related to further mandatory Finance Training and specific performance objectives for budget holders. This is planned to start from April 2023.</p>

Task	How	Progress
<p>An assurance gap analysis of decision making, including boards and roles of directors to help drive a constitutional refresh to support and strengthen effective business decision making. This will include for example schemes of delegation and contract procedure rules.</p>	<p>The Business Support Team will map all decision-making Boards, projects and the forward plan for internal and external meetings (for example SLT or Cabinet).</p> <p>SLT/COG to recommend a reduction and focus of all boards, with then COG having an oversight of all Boards and exception reporting which can then be escalated as appropriate to SLT.</p> <p>This will comment on the constitutional and decision making of those boards and projects within, as well as make recommendations to the constitutional review for improvements to the Constitution / schemes of delegation as well as policies and procedures. Including ensuring all policies and procedures reference are in place and up to date, and compliant / consistent with other policies.</p> <p>All Strategic Directors to sign off Directorate Scheme of Delegation each February and carry out mid-year review (September) to make any changes (with standard template of core requirements – i.e. Finance, HR, etc...)</p>	<p>Progress has been delayed due to the departure of the Monitoring Officer. A summary of the existing Boards and potential boards has begun with COG and a list of changes has been produced for sign off by COG and SLT in December. Whilst that is three months behind schedule, the delay should not have an impact on the constitutional changes work. This will be picked up by the Interim and new Monitoring Officer.</p> <p>Work is ongoing to develop a Scheme of Delegation template, and this work will be picked up by the Interim Monitoring Officer.</p>

Task	How	Progress
	<p>Procurement Rules & Contract Procedure Rules to be updated by Feb 2023 and annual review going forward</p> <p>All managers to complete mandatory training on decision making and understand role and accountability, as well as decision making powers with consequences also understood for not following.</p> <p>Annual Report on compliance to go to the Audit & Governance Committee</p>	<p>This work is in progress.</p> <p>A training module is in progress of being drafted and this work will be picked up by the new Monitoring Officer.</p> <p>This will be addressed in May 2023.</p>
<p>Strengthen the Council's performance framework, including service plans linked to performance and medium-term financial plans.</p>	<p>A review of the business planning cycle with improvement and embedding for 2023/24 with actions to enable that in 2022/23 that ensure all areas have a service plan, KPIs and aligned budget to delivery that meets the MTFP.</p> <p>This will be set out in a overarching document for each level of responsibility that includes the roles, accountability / timings and expectations and consequences for not delivering against these.</p>	<p>A draft cycle has been presented to COG and the Project Management and Performance Management Teams are progressing the development of this for the production of 2023/24 Business Plans and associated documents. This will be rolled out for 2023/24 and Service Plans began to be written after the publication of the draft budget in January 2023.</p>

Task	How	Progress
<p>Strengthen the process around capital decision making, including business cases.</p>	<p>Undertake a review of learning and best practice from current schemes to recommend improvements.</p> <p>Update the Constitution and Financial Regulations to set out that improved process with appropriate policies and procedures, as well as training and clarity of roles.</p> <p>Gateways and decision making is clear, for example prioritisation scoring, MRP and costs more transparent in the decision-making process and the process is followed with consequences</p> <p>The delegations, including specificity of the schemes being carried out and funding under the Capital Programme are transparent and approved.</p>	<p>A Capital Board is now in place and a review has drafted an outline Terms of Reference and decision making governance structure for sign off by the Board in early January 2023.</p> <p>This is in progress and on time.</p> <p>A revised approach is to be recommended to the January 2023 Capital Board.</p> <p>The Capital Board Terms of Reference are in draft and will feed into the Constitutional review.</p>
<p>Further enhance the working between Officers and Members, including Officer Register of Interests.</p>	<p>A LGA sponsored programme of development.</p> <p>A review and continuous learning and improvement of the Member / Officer protocols.</p> <p>Formal annual update of the officer register of interest linked to performance reviews, with mandatory training so all are aware.</p>	<p>LGA development days were held in July 2022.</p> <p>This work will need to now be picked up by the new Monitoring Officer.</p> <p>This work will be picked up by the Interim Monitoring Officer.</p>

Task	How	Progress
<p>Focus on core competency training and development for all employees, in particular HR, finance, decision making and performance management.</p>	<p>Design development programmes across various levels within the organisation for managers, supervisors and staff to ensure that competencies required at each level enable each to perform their duties effectively.</p> <p>2023 Performance Reviews to include standard targets / objectives for all staff appropriate to their level around HR, Finance and Decision Making. With direction to training as required. This includes thus focused mandatory training as appropriate to role across different levels, and corporate training basic level for all.</p> <p>2023 Performance monitored and reported on these competencies with appropriate reward, development and action.</p>	<p>The Officer Training Module is now live on the Intranet to record and direct individual's training.</p> <p>The development programme is being developed alongside need, including Well-Being in line with the HR Strategy.</p> <p>These are in progress regarding review.</p> <p>Our Performance maturity is being evolved in line with this for later in 2023.</p>

AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

INTERNAL AUDIT PROGRESS REPORT

Recommendations

1. The Chief Internal Auditor recommends that the Internal Audit progress report 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 overall risk management, governance, anti-fraud and corruption and internal control processes.

Audit and compliance 2022/23 deliverables and plan

3. Planned audits for the remainder of the financial year and progress against the 2022/2023 audit plan continues and is shown in detail at Appendix 1. The dashboard below provides an overview including the status of reviews.

Status	Quarter	Quarter	Quarter
	1	2	3 to date
Grants Certified	2	5	8
Grants - Start Fieldwork		2	1
Audit - End Audit		3	3
Audit - Responses received			1
Audit - Draft report issued			1
Audit - End Fieldwork	2	2	2
Audit - Start Fieldwork	6	2	6
Audit - Terms of Reference Agreed		2	
	<u>10</u>	<u>16</u>	<u>22</u>

The figures are compounded (i.e. 22 audit reviews have been started so far this year) and are broken down into quarters to show the deliverables as the year progresses.

Audit actions update

4. We are working closely with operational service managers to ensure that actions are undertaken. For actions relating to limited assurance audits where a follow up audit is planned, actions are transferred to the new audit.

5. For School's where outstanding actions have reached 3-6 months there is agreement with the Schools Support Forum that a Letter of Concern will be issued. Where there remains an inaction a 2nd Letter of Concern will be issued addressed to the Chair of Governors.

6. Due to two Schools not responding in full to the first Letter of Concern we are in the process of liaising with the Schools Support Forum to issue a second Letter of Concern to the two Schools.

Schools Auditing Process

7. We are undertaking a risk assessment of the maintained Schools to determine which schools are to be included in the audit plan for the year. We are considering the budget of the school, procurement card expenditure, number of transactions, staff turnover and how long ago the school was last audited. To each element we apply a score which gives an overall risk score. After moderation for the 15 schools with the highest risk score we have spoken to Schools Improvement and School's Finance to provide further information to further inform our judgement on which Schools should be prioritised.

8. For School's audits we have a School's work programme which covers testing on financial controls including procurement, policies and procedures. To gather the relevant evidence, we make personal visits to the school during the audit.

Anti-Fraud and Corruption

9. The National Fraud Initiative (NFI) is a data matching exercise within and between public and private sector bodies to help prevent and detect fraudulent activity. The deadline for submission for the 202/23 exercise was the 18th November 2022. The Council has submitted all the required reports to the NFI team. The results of the process highlighting any matches will be sent to the Council in January 2023 for investigation.

10. Since the last committee we have received 8 notifications/inquiries regarding potentially fraudulent activity that have necessitated further inquiries.

- 4 are now closed after confirming no fraudulent activities.
- 4 cases remain open and under investigation while the appropriate inquiries and liaison is made with the relevant parties.

Advisory services

11. There has been no advisory work undertaken since our last report

Grant certifications

12. 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. 8 grants have been certified as accurate to date. Details of certifications are given in Appendix 1.

13. Disabled Facilities Grant (DFG): The team are continuing to progress the audit of DFG but there is a delay in obtaining certain requirements of information from a number of District Councils.

Staffing

14. Currently the Audit and Compliance Manager is overseeing the day-to-day operational aspects of the Internal Audit service with support from the Chief Internal Auditor (CIA) of the Worcestershire Internal Audit Shared Services (WIASS). This arrangement is set to continue until at least the end of the financial year.

15. The team have had two members of staff leave in the past month, one at PO3 grade and the other at Scale 6 grade. We are currently recruiting on a temporary basis through an agency.

16. The team continues to develop, and we have a healthy mix of qualified staff and those undertaking training. All staff have regular performance reviews in line with the Council framework, undertake all mandatory training and have regular 1 to 1 sessions.

17. A review has been ongoing to assess the option to pursue a partnership agreement with WIASS that would form a cross public sector Internal Audit team in Worcestershire (local government, fire and police). As part of awaiting this review and business case it was decided by the CFO to not recruit to the vacant CIA role and instead seek support from the WIASS CIA. Unfortunately, it has recently become apparent due to differences in terms and conditions across the County and proposed partners, that as part of that assessment the option of a shared service including the County Council will not be capable of being implemented. As such this option has now fallen away.

18. Instead it has now been decided to undertake a recruitment for a Worcestershire County Council CIA under the existing job description, and an advert will go out shortly.

Contact Points

Specific Contact Points for this report

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Supporting Information

Appendix 1 Audit status

Appendix 2 Audit Actions

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	Type	Current Milestone	Rating
2021/22-58 - BEIS Public Sector Decarbonisation Grant	Certification	End Audit	Certified
2022/23-08 - Worcester Business Central Growth Hub	Certification	End Audit	Certified
2022/23-10 - Broadband UK	Certification	End Audit	Certified
2022/23-16 - Contain Management Outbreak Fund	Certification	End Audit	Certified
2022/23-18 - Drug Treatment Grant	Certification	End Audit	Certified
2022/23-20 - Local Transport Capital Block Funding	Certification	End Audit	Certified
2022/23-22 - Bus Subsidy (Revenue) Grant	Certification	End Audit	Certified
2022/23-24 - Peer Networking	Certification	End Audit	Certified
2021/22-11 - Comberton Primary School	Assurance	End Audit	Moderate Assurance
2020/21-76 - Rigby Hall Day Special	Assurance	End Audit	Limited Assurance
2021/22-75 - Redhill Primary School	Assurance	End Audit	Limited Assurance
2022/23-23 - Disabled Facilities Grant	Certification	Start Field Work	Not assessed
2021/22-14 - Direct payments	Assurance	Responses Received	Not assessed
2022/23-07 - Shrub Hill Governance	Assurance	Draft report issued	Not assessed
2022/23-25 - North Bromsgrove High School	Assurance	End Field Work	Not assessed
2021/22-54 - Long term agency and consultancy placements	Assurance	End Field work	Not assessed
2021/22-06 - Employee starter process	Assurance	Start Field Work	Not assessed
2021/22-56 - Employee leaver process	Assurance	Start Field Work	Not assessed
2021/22-71 - Contract review - Ringway	Assurance	Start Field Work	Not assessed
2022/23-26 - Dodford First School	Assurance	Start Field Work	Not assessed
2021/22-72 - Contract register - supplier spend analysis	Advisory	Start Field Work	Not assessed
2022/23-27 - Office of the Public Guardian Inspection for Appointees and Deputies	Assurance	Start Field Work	Not assessed

Planned Audits

Rigby Hall School follow up audit
 Elmley Castle School follow up audit
 Substance Misuse Grant
 Rough Sleepers Grant
 Care Quality Commission inspection regime
 Day Opportunities review following consultation
 Schools * 3 (to be confirmed)

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	Not Due	Transferred	Cleared	0-3 months	3-6 months	6-12 months	>12 months
Substantive Assurance Audits							
2020/21-81 - Transport services, external and internal management and reporting* ¹			2	1		1	
Moderate Assurance Audits							
2021/22-52 - St Richard's CE First School* ²			3			4	
2021/22-20 - Chaddesley Corbett Endowed Primary School* ²			7			7	1
2021/22-11 - Comberton Primary School	4		2				
2020/21-50 - PY - Asset management - Property	3		5	1			
Limited Assurance Audits							
2021/22-75 - Redhill Primary School	9						
2021/22-07 - HR mileage and expenses	4						
2021/22-05 - Insourced services – advisory and assurance support	1						
2020/21-67 - Long term agency and consultancy placements		2	5				
2020/21-45 - Elmley Castle First* ³			16				1
2020/21-42 - Debt management	15						
2019/20-69 - North Bromsgrove High School		1	8				
	36	3	48	2	0	12	2

*¹ Awaiting response from management

*² Second Letter of Concern to be issued

*³ Follow up audit being undertaken in quarter 4 2022/2023

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AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

FINANCE IMPROVEMENT PROGRAMME

Recommendation

1. The Chief Finance Officer recommends that the report be noted and that further updates are brought to the Committee in July 2023.

Background

2. An introduction to the planned Finance Improvement Programme was presented to the last Audit and Governance Committee in December 2021, with an update then taken to the March 2022 Committee. This report provides an update on that programme and next steps.

Detail

3. The programme includes six projects aimed at releasing efficiencies in both Finance and other service areas, and facilitating 'self-serve' and 'automation':

- I. **Accounts Payable** – *ensure more efficient and automated way to buy with fewer people, but higher skilled staff. This will start with re-engineering process for payments that follow the automated route and then pick up feeder system payments*
- II. **Income & Accounts Receivable** – *move more income collection to receipt of income at point before service and via a Centralised team improved income raising and more targeted debt recovery.*
- III. **E5 and collaborative Planning** – *upgrade and more user-friendly front end, with removal of recharges unless essential to improve data and budget monitoring.*
- IV. **Financial Regulations** – *ensure that rules governing meet business need and drive strong financial management, for example cannot buy without budget.*
- V. **Revenue Budget Monitoring** – *move to risk assessed self-service by budget holders and more check and challenge from Finance linked to performance / activity data.*
- VI. **People** – *workforce planning for staff to help manage succession and reductions*

4. In addition, there is a seventh project that is part of a wider resources programme to review and improve the Council's Intranet as a single point of access and learning tool for users and managers. Within that therefore we will have **MyFinance** project that will create

a user (Finance staff and clients) friendly tool around to training, document deposits, self-service and more.

5. The key actions expected in the last two quarters since we last reported to this Committee were:

- E5 Upgrade;
- Draft Financial Regulations
- Continued improvement in Budget Monitoring
- Accounts Payable developments in Supplier management Open banking
- Workforce planning

The following paragraphs provide members with an update, including these areas.

- **E5 and collaborative Planning**

6. The upgrade of the general ledger was due to Go Live late February 2022. However, three critical risks identified in January 2022, meant this was rescheduled to June 2022.

7. It is pleasing to report that the E5 Upgrade, as well as upgrades to the Social Care financial modules (Controcc) were successfully completed in June 2022. There were no problems reported or experienced at the time or since in either the Council or our school clients.

8. The Finance Leadership Team has also reviewed the structure of its Systems support to ensure it is fit for purpose going forward. This identified a need to address both a risk of single person reliance, as well as skills in PowerBi. As such a restructure is just finalising that addressed both these risks.

9. The team are now working on a front end PowerBi solution to supplement Collaborative Planning to enable a more user friendly and usable finance dashboard that will sit alongside an activity and output performance dashboard also being delivered on the same platform. This is now expected to be rolled out mid to late 2023. We have also implemented a training programme for staff within the systems team as well as within the corporate and service finance teams.

- **Financial Regulations**

10. This work is linked to the Annual Governance Statement review, which identified a need to review the whole Council's constitution. As members will recall this has stalled due to the departure of the former Monitoring Officer, however as noted elsewhere on the same agenda this is now progressing and it is still felt that changes to the Financial Regulations will go to May / June Council 2023.

- **Budget Monitoring**

11. Finance have developed and delivered a three module Financial Awareness training programme to budget managers and officers across the Council, with in excess of 300 delegates attending in year. This has promoted the importance of reliable budget

monitoring, forecasting and control and raises awareness relating to where the Council gets its money from and where it is spent. Feedback on the course has been hugely positive and has not only improved financial awareness across the Council and WCF, but has raised the profile of the role finance across the organisations.

12. Monthly budget monitoring continues to be produced for senior management teams within the directorates and to the Chief Officer Group and Strategic Leadership Team. Alongside this, the finance business partners have developed a number of activity-based forecasts within our demand related budgets (predominantly adults and children) so that the reader can see the direct correlation between activity, demand, unit costs and forecast.

13. The budget setting process continues to be done in conjunction with the budget holders and ensures that they are involved in the development of future budgets at a time when they can influence future decision making.

- Accounts Payable: Supplier Creation

14. In May 2022 a data analytics report carried out by Internal Audit showed that the Council had 29,719 open suppliers on E5. When comparing supplier name and bank details, 3,057 duplicate suppliers were identified. Of these 29,719, 11% (3,262) were created in 2021. Of these 3,262, 25% (803) were rejected at Approval stage (mainly due to duplication).

15. Between 1 January 2022 and 30 June 2022, on average 292 new suppliers were created each month for company W1 (W1 includes: WCC, Pensions, WCF and Schools). There are currently 1,475 E5 users able to raise supplier accounts (this includes schools' users).

16. The Data Analytics also found:

Volume (total supplier 29,719)	Issue	Impact
4,669	Suppliers with no email address	Unable to send remittance advices electronically, thus creating a more labour-intensive process. Also limits our ability to contact/verify suppliers, increasing risk of fraud
20	Supplier with no post code	Minimal impact if contact is electronic. However, reduces data quality
218	Suppliers missing bank account and/or sort code. 53 relate to Factoring Companies. 38 relate to Foreign Suppliers	Unable to be paid by BACS, increases the need for cheque payments
11,737	Telephone number issues	Reduces the ability to efficiently identify duplicate suppliers.

17. This whole process has been mapped to identify weaknesses and inefficiencies and Finance are now redesigning a 'To Be' approach that utilises E5 to a fuller potential and capacity using the E5 Process Manager solution.

18. The implementation of the E5 Process Manager will allow a smart form to be created to route the Supplier Creation process and allow a number of automatic checks to be carried out at point of creation. This will route through automatically to key areas for the business for approval. This will ensure that all details are on E5 from the outset and save duplicating effort and will also ensure that key data is completed at the point of creation. With the implementation of the E5 supplier portal this will allow new suppliers to be created at the same time. This will move suppliers to self-serve of purchase order, payments and progress on queries, reducing the number of queries in to the Council from both internal and external staff. In conjunction with this implementation, we will carry out a comprehensive data cleansing exercise and establish an SLA for all areas of the business to ensure that roles and responsibilities are clearly understood.

19. We will reduce the number of people able to create suppliers and ensure that training and guidance is updated and maintained. Given the reduced numbers of staff involved with the process we can provide a more comprehensive training and support programme. This will work alongside the preferred option for Purchase Order (PO) creation and will be the same identified Directorate staff.

20. The Accounts Payable team are now working on this with the Finance System Team to bring in a solution in mid to late 2023.

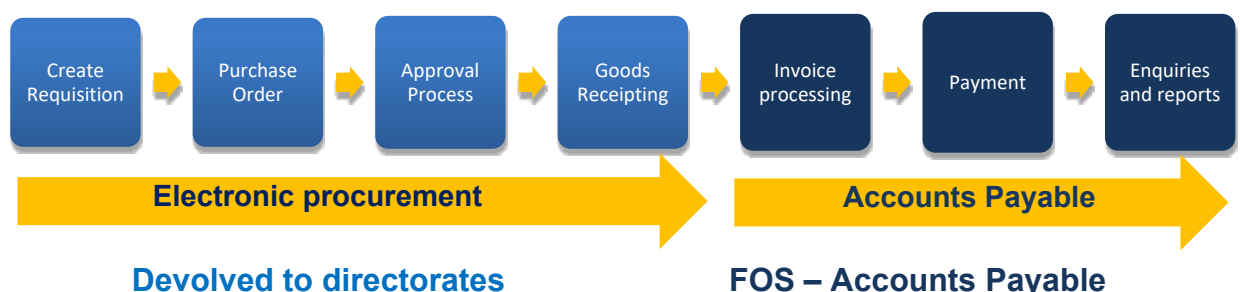
- Accounts Payable: Purchase Order (PO) Creation

21. Purchase Order creation is currently a devolved process and it has been identified there are a number of issues with the current process including;

- PO's raised inaccurately leading to queries and incorrect payments
- Poor and delayed good receipting leading to delays in payments and increased queries
- PO's being raised after goods and services have been delivered leading to poor budgetary control

22. This work links very closely with the proposal for reviewing the supplier set-up and a lot of the costs for the implementation of IT changes and additional E5 modules will be to deliver both proposals

23. The current Purchase Order creation process is:



24. Implementing a revised process will need to ensure it delivers measurable benefits in the following areas in order to reduce queries, improve process, and create efficiencies. This will need to take advantage of improved IT usage to reduce and eliminate manual processes and move to a supplier self-serve model.

- Reducing the numbers of people able to create PO's but investing more time in the understanding, training and support so that they have confidence in delivering the process, reducing queries and increasing accuracy.
- Improving management intelligence such as: PO management, budget monitoring data and budget driven restrictions to an automated PO creation process, to improve budgetary and spend control.
- "No Purchase Order, No Payment" policy enforced reducing the risk of incorrect or late payments, complaints and minimising the risk of fraud via incorrect payments (this will be strongly linked to the Supplier Creation changes).
- Electronic delivery of PO and subsequent monitoring and queries via a central 'portal' automating the 'sending out' of the PO's to reduce administration time and enable suppliers to self-serve.
- Ability for suppliers to check on current PO status and progress to payment on the portal reducing progress chasing calls and targeting queries.
- Improving authorisation process to ensure timely authorisation, goods receipting and payment, therefore improving time to pay suppliers which supports meeting for the needs of local businesses

25. As such Finance are now developing a 'To Be' Model that will allow a standardised but devolved directorate service with digital enhancements to the process that will run alongside the introduction of a supplier portal and improved central report and monitoring function. This option would include improved training for key directorate staff, clear SLA, and process maps. These key staff members would sit in the Directorates but reduced from the c1700 to c50. This would in effect centralise this within the Directorates rather than devolved much wider as is currently the case.

26. It would fully utilise digital alternatives and technology with an automated workflow process from pre-populated form creation in E5 Business Process Manager, ensuring data is on the Finance system at the outset. This would also allow for check and balances to be carried out at point of creation, ensuring accuracy of purchasing, correct coding and budgetary commitments. The introduction of the Supplier Portal would mean that PO's and all subsequent payment activity would be available on a self-serve basis for all suppliers, significantly reducing the need for central intervention and ensuring that queries are reduced. This has already been achieved in Adult Social Care where all non-residential providers interact with a portal and there is 100% compliance in terms of provision of purchase orders.

27. By introducing better workflow management it would ensure consistency of form completion, improving the user experience and saving time for the Purchase Order raiser, and reducing queries. Automation and self-service would be employed. The Central team would report and monitor exceptions. Digital and automated solutions would give the potential to replace off system processes with e-forms and workflow. Improvement of time, cost and quality in the process would enabling more robust management.

28. The Accounts Payable team are now working on this with the Finance System Team to bring in a solution in mid to late 2023.

- Accounts Payable: Open Banking

29. Open banking is the new term that refers to the changing process of banks and other financial institutions opening up data for regulated providers to access, use and share information. This has enabled greater use of applications (apps) to enable easier payment and income collection with lower fees and less transactional processes.

30. The Council's Finance Team are presently exploring the potential to use this to collect income more efficiently as well as making payments. Initial discussions with providers suggest that as much as £150,000 could be saved in banking fees per annum.

31. It is hoped that a contract can be signed before 1 April 2023 with the use of this provision to collect income being rolled out in late 2023.

- People / Workforce Development

32. The Financial Operational Services (FOS) have developed a pilot succession and workforce development plan that is about to be rolled out across all of Finance.

33. The Workforce Plan will be applicable for all staff and links to job description and person specifications to assess:

- Professional competence
- Behavioural competence
- Technical competencies
- Well-being
- Own aspiration and personal and professional development needs
- Planned / known changes in structure and workforce

34. From this work there is the ability to assess the training needs analysis for the whole service and for individuals. This also enables us to work with the team to enable them to undertake work that will benefit the business and their own development and career opportunities. As well as enabling those that wish to leave the organisation to do so in a managed fashion, and managers to plan to avoid retention or skills gap risks.

35. There will always be changes to staffing retention we cannot and will not control, however we hope this approach will increase our opportunity to attract the right talent going forward.

36. As a result of this, all staff will have a workforce plan for the coming years by April 2023, as well as an individualised training and development plan to support individual and collective workforce planning

37. The Workforce Strategy also includes the development of a standard induction plan for new staff, a standard template for objective setting and proves for regular monthly 121 conversations for staff with their line manager. This links into the mid-year and year-end corporate review process.

- MyFinance

38. The Council procured a partner to redesign the Internet Webpages, that has led to slippage in this programme. However, Finance and IT recently met to look at the prioritisation of this for 2023 and further progress is expected during 2023.

Next steps

39. The Strategic Board is meeting every six weeks to review progress, risks and resources. An update is suggested for the July 2023 Committee.

Legal, Financial and HR Implications

40. The cost of resourcing this Programme, including MyFinance, of £0.3 million was approved by SLT and is funded from the Transformation Reserve. This programme is currently thus funded and due to pay back within 18 months.

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 Financial Officer) there are no background papers relating to the subject matter of this report.

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AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

PEOPLE DIRECTORATE – OCTOBER 2022 DEBT POSITION STATEMENT

Recommendation

1. The Chief Financial Officer recommends that the Debt Position Statement for the People Directorate is noted.

Overview of People Directorate Debt Levels

2. The total debt outstanding for the People Directorate as of 31 October 2022, was £18.83 million (an increase of £88k on the July 2022 figure previously presented) of which 59.2% (60.7% in July 2022) was aged more than four months old. However, while the overall debt has increased marginally, the figure for Adults Social Care has increased by £696k while Public Health has decreased by £680k.

Table 1: People Directorate Debt Outstanding @ 31 October 2022

Data @ 31 Oct 2022	Up To 30 Days	Instalment	31 to 120 Days	121 to 365 Days	>365 Days	Grand Total	No of Customers
People - Adults	3,698,884.51	337,704.82	2,755,564.70	3,773,770.28	5,328,221.60	15,894,145.91	5,997
People - Communities	333,234.46	436.70	534,754.88	1,064,496.79	966,971.19	2,899,894.02	344
People - Public Health	1,261.77		11,413.00	216.38	19,622.41	32,513.56	27
Grand Total	4,033,380.74	338,141.52	3,301,732.58	4,838,483.45	6,314,815.20	18,826,553.49	6,368
% of Total Debt	21.4%	1.8%	17.5%	25.7%	33.5%		

3. As can be seen in Tables 2 and 3, the upward trend in the value of debt with Adult Social Care Debt has continued since July with debt increasing by a further 5% (to £15.9 million) in the last 3 months, whilst other service areas have reduced by 21% (to £2.9 million) as of 31st October 2022. Table 3 below provides further detail of this. This is despite the continued increased focus and spend on debt collection in this area. Information from other Authorities would indicate the same trend.

Table 2: People Directorate Debt – Trend Analysis

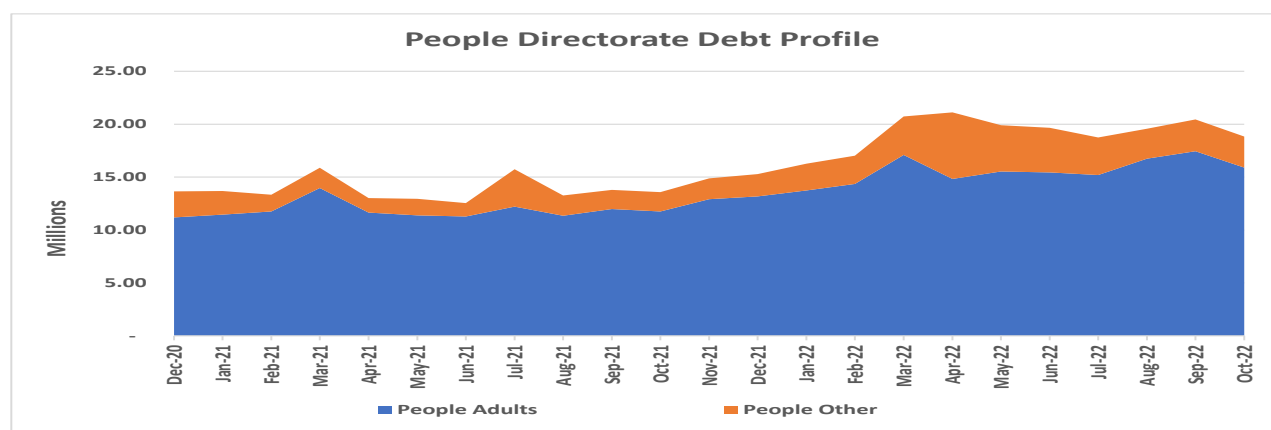


Table 3: People Directorate Debt – Trend Analysis Detail

Rolling 12-Month Period	People Adults	People Communities	People - Public Health	Total
Nov-21	12,911,491.31	1,860,683.79	116,514.19	14,888,689.29
Dec-21	13,174,154.81	2,004,444.04	111,402.60	15,290,001.45
Jan-22	13,739,825.40	2,400,979.16	130,611.98	16,271,416.54
Feb-22	14,347,601.79	2,382,178.60	301,414.49	17,031,194.88
Mar-22	17,097,651.76	3,354,593.19	284,873.32	20,737,118.27
Apr-22	14,831,317.03	6,082,082.27	207,267.33	21,120,666.63
May-22	15,535,167.40	3,996,497.92	371,825.95	19,903,491.27
Jun-22	15,445,033.00	3,828,380.35	378,025.37	19,651,438.72
Jul-22	15,197,673.91	2,828,481.53	712,097.64	18,738,253.08
Aug-22	16,745,191.61	2,725,099.11	107,216.75	19,577,507.47
Sep-22	17,440,932.97	2,978,543.54	32,511.79	20,451,988.30
Oct-22	15,894,145.91	2,899,894.02	32,513.56	18,826,553.49

4. Further detailed analysis of the ASC debt is provided below. The figure for Communities (in Table 3) includes an amount of £1.1 million which relates to sums invoiced to the University of Worcester in respect of shared costs for The Hive. This invoice has been disputed by the University and the Council's Legal Team are currently exploring the options for legal recovery of this debt.

Adult Social Care (ACS) Debt

5. Charges in respect of ASC are levied in respect of Residential and Nursing, Domiciliary, and Respite Care. The 31 October Debt position for each of these groups can be seen in Table 4. (This debt position does not include Deferred Payment Agreements, which are explained in paragraph 14.) Table 4 also includes other historical debts where instalment provisions have been put in place and other non-service specific charges.

Table 4: ASC Debtors Per Service Type

Service Type	Up To 30 Days	Instalment	31 to 120 Days	121 to 365 Days	>365 Days	Grand Total
Residential and Nursing	2,876,606.46	0.00	1,985,910.12	2,639,541.89	2,519,457.99	10,021,516.46
Domiciliary	783,004.71	76.57	719,121.23	994,132.70	2,401,490.20	4,897,825.41
Respite	38,529.00	460.69	48,679.81	131,039.09	235,460.76	454,169.35
Instalment Arrangements	0.00	337,167.56	0.00	0.00	-10,737.96	326,429.60
Other	744.34	0.00	1,853.54	9,056.60	182,550.61	194,205.09
	3,698,884.51	337,704.82	2,755,564.70	3,773,770.28	5,328,221.60	15,894,145.91

6. As previously stated, care is procured by the Council and charges are invoiced monthly in arrears.

7. Table 5 below shows the value of charges raised for the 12 months up to 30 September 2022, collection rates for all Adult Social Care customers is 81%. However, for those ASC clients (approximately 37%) who pay by Direct Debt, collection rates are significantly improved at 96%. For service users paying by an alternative method, the collection rates are less successful, with £5.8 million (26.8%) unpaid.

Table 5: ASC Monthly Invoices and Collection Rates

Period	Total			Direct Debit Customers			Non Direct Debit Customers		
	Invoiced	Debt O/S	% Paid	Invoiced	Debt O/S	% Paid	Invoiced	Debt O/S	% Paid
Oct-21	£2,418,892.20	£309,391.19	87.21	£905,228.16	£7,367.18	99.19	£1,513,664.04	£302,024.01	80.05
Nov-21	£2,607,307.00	£318,542.63	87.78	£950,469.94	£13,573.11	98.57	£1,656,837.06	£304,969.52	81.59
Dec-21	£3,103,383.19	£393,062.29	87.33	£1,213,066.74	£53,345.03	95.60	£1,890,316.45	£339,717.26	82.03
Jan-22	£2,720,896.05	£382,228.65	85.95	£932,967.78	£8,511.76	99.09	£1,787,928.27	£373,716.89	79.10
Feb-22	£2,455,874.37	£319,170.01	87.00	£986,213.02	£13,605.96	98.62	£1,469,661.35	£305,564.05	79.21
Mar-22	£3,178,363.29	£431,456.58	86.43	£1,105,852.12	£23,491.29	97.88	£2,072,511.17	£407,965.29	80.32
Apr-22	£2,458,866.74	£454,998.52	81.50	£898,954.59	£11,171.08	98.76	£1,559,912.15	£443,827.44	71.55
May-22	£2,989,319.76	£578,104.24	80.66	£982,341.64	£21,881.28	97.77	£2,006,978.12	£556,222.96	72.29
Jun-22	£3,328,814.78	£599,456.29	81.99	£1,288,566.75	£32,931.55	97.44	£2,040,248.03	£566,524.74	72.23
Jul-22	£2,712,749.00	£716,367.96	73.59	£1,097,007.79	£189,587.17	82.72	£1,615,741.21	£526,780.79	67.40
Aug-22	£2,979,932.05	£925,544.25	68.94	£943,729.54	£46,892.07	95.03	£2,036,202.51	£878,652.18	56.85
Sep-22	£3,357,128.66	£940,243.05	71.99	£1,191,050.49	£85,639.05	92.81	£2,166,078.17	£854,604.00	60.55
	£34,311,527.09	£6,368,565.66	81.44	£12,495,448.56	£507,996.53	95.93	£21,816,078.53	£5,860,569.13	73.14

8. An analysis of the debt over 365 days since December 2020 is at Table 6. This shows that while the value of debt has increased, the percentage of debt over 365 days has remained at circa. 28% of the overall debt. Table 7 shows the age of ASC debt over 365 days as of 31 October 2022.

Table 6: Adult Social Care Age of Debt over 365 days

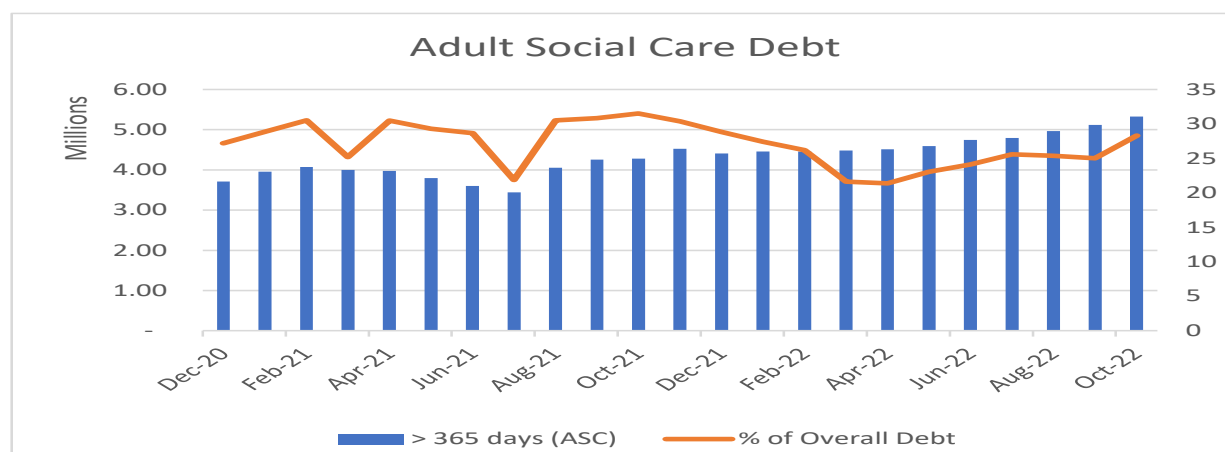


Table 7: Adult Social Care Age of Debt over 365 days

Year Raised	People - Adults
2016	180,413.42
2017	372,684.65
2018	534,817.34
2019	769,377.02
2020	1,784,492.21
2021	1,686,436.96
Total	5,328,221.60

9. Table 7 shows that debt levels have increased significantly since 2019, at which time responsibility for charges for residential care transferred to the Council rather than direct client billing from Care Providers. Residential and Nursing Care currently accounts for 63% of all debt.

10. The impact of Covid 19 and widespread speculation on planned changes to ASC funding are also likely to be factors in payment decline. WCC are currently exploring action that may be taken to change this behaviour. To identify future strategies for recovery, we have undertaken an analysis of the ASC debtors. Table 8 shows the various ASC debtor groups @ 31st October 2022.

Table 8: Adult Directorate Customer Groups

Customer Groups	Up To 30 Days	Instalment	31 to 120 Days	121 to 365 Days	>365 Days	Total
Individual	2,312,282.88	337,704.82	2,743,096.15	3,598,267.99	5,036,978.12	14,028,329.96
Health Authority	1,274,646.69	-	-	77,877.02	41,787.67	1,394,311.38
Commercial Organisation	111,954.94	-	12,468.55	61,881.28	177,119.29	363,424.06
Local Authority	-	-	-	35,743.99	7,714.02	43,458.01
Other (Under Investigation)	-	-	-	-	64,622.50	64,622.50
Total	3,698,884.51	337,704.82	2,755,564.70	3,773,770.28	5,263,599.10	15,894,145.91

11. Debt recovery action has processes to deal with various debtor types. These include legal action where other recovery activity has not been successful. For ASC Individual clients, which are by far the largest group of debts, we have further sub-divided the Debtor Groups as shown in Table 9.

Table 9: ASC Individual Debtor Groups

Debtor Groups - Individuals	No of Debtors	Debt Value	Debt Activity
Current Transactions Only	2362	1,548,694.02	No action required - accounts up to date
Debts with Legal Service	138	2,540,091.93	Legal Action in Progress
Credit or Less than £50	616	- 322,530.50	Consider write off/on
COP Clients	137	2,297,565.50	Pursuing with Financial Representatives
Deceased >12 months	336	877,331.13	To be reviewed on case by case basis
Deceased < 12 Months	123	459,698.94	Pursuing with Executors
Current Client with multiple 2022 and Aged Debts	565	2,403,796.97	Chasing action continues with little success
Current Client with multiple 22 Debts	800	2,119,395.18	Chasing action continues
Not Current Client Debts Pre-Dating 2019 Only	167	145,554.36	Consider write off action
Not Current Client Debts Aged 2019 and March 2022	466	547,424.52	Chasing action continues with little success
Not Current Client 2022 and Aged Debts	455	870,198.82	Pursuing with Client
Not Current Client 2022 Debts Only	172	541,109.09	Pursuing with Client
Total	6337	14,028,329.96	

12. As shown in Table 9, the Finance Operational Services (FOS) Debt and Legal Teams continue to chase debts outstanding. Given the scale of the task and the resource available, this is likely to take some considerable time. The Team continues to review the resourcing of this activity and whether external collection provision should or could be used. However, such a move could attract negative publicity, particularly during the “cost of living” crisis. There has been increased pressure in Court of Protection client debt and dedicated resource is now in place to manage this. It should also be noted that while over £4.5m is owed by clients who are still in receipt of service the Council is not legally permitted to withdraw its provision to these individuals. We continue to explore how best to secure payments from such individuals.

13. Considering the increasing debt levels, FOS teams are considering a number of initiatives to improve client engagement and increase payment levels. Specific projects and developments, as well as legal action noted above, include:

- the implementation of an enhanced Billing Module within the Social Care Case Management System, which will provide service users with a monthly holistic view of their account including care provision and payment information to date rather than the current provision of individual monthly invoices. This project has now commenced.
- The current reporting mechanisms in e5 (finance system) are complex and involve using bespoke software. This limits the ability to produce some reports in particular time and date sensitive reports. With the introduction of the Billing Module (stated above) later next year, we hope to be able to produce better quality information from ContrOCC (Social Care Case Management System). We are also working to move the e5 data into a data warehouse and use PowerBi for our reporting tool during the course of next year.
- progressing the implementation of paperless Direct Debit (DD) functionality, which will make it easier for clients to sign-up for DD collection. As shown above, this has a major impact on payment levels, and we propose that DD be promoted and marketed as the default payment channel for collecting social care charges.

- visibility of debts is now shared with ASC service teams and budget holders monthly, with some teams actively engaging with service users (or their representatives) regarding debt levels and payment activity.
- FOS and the People Directorate are planning to further explore how communication with clients in respect of their financial obligations for care provision can be improved. Evidence suggests that when both care and financial matters are discussed together, clients often fail to retain the financial impact at such a life-changing moment. Consideration needs to be given to introducing a separate financial discussion with service users where the potential financial impact of their care decisions can be clearly explained.
- Delays in client engagement with the financial process are also leading to delays in issuing service invoices. This has resulted in clients receiving large initial bills covering several weeks or months of service. Council policy does permit for a full cost invoice to be produced if a financial assessment is not completed within 4 weeks. However, the ongoing issues has resulted in some assessments taking much longer than this timescale, with cases placed on-hold while awaiting financial information.

14. In addition to the ASC invoiced debt noted above, the Council has a longer-term debt that it recognises of £2.6 million (as @ October 22) relating to Deferred Payment Agreements. In these cases, eligible service users enter into a legal agreement whereby a charge is placed against property by the Land Registry to secure the Council's debt. During the lifetime of the loan, daily compounded interest (currently 1.55%) is applied and statements are issued to the service user/representative/estate every 6 months to show the balance of accrued debt. The rate of interest is set nationally. Cases are reviewed annually, and property equity is monitored against current market values. Agreements end on death of the service user or on the sale of property, the loan is repaid in full and the charge against property is lifted. The Council currently has 76 Deferred Payment Agreements in place.

Contact Points

Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 845560, mhudson@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

30 NOVEMBER 2022

COMMITTEE TRAINING PROPOSALS

Recommendations

- 1. The Chief Financial Officer recommends that the Training Proposal attached as an Appendix be approved.**

Background

2. The Audit and Governance Committee has a long-established training programme. With the revisions to the Committee following the electoral cycle a revised programme has been put together to look at providing a strong competency based framework for all members of the Committee.

Progress

3. The attached Appendix sets out the proposed training plan for the remainder of this electoral cycle. It is noted that the programme will be a mixture of face-to-face delivery and on-line training. Where training is held face to face every effort will be made to set dates significantly in advance to allow members to attend, although where members cannot attend, all training will be recorded and available for non-attendees to follow up at a later date.
4. Members will be required to attend / complete all training modules. Alongside this the programme will continue to be reviewed in light of emerging developments from CIPFA, Government and ARGA.
5. Officers will carry out a post training session evaluation and will continually seek advice and comments from members attending on the focus and style of training.
6. It is suggested this programme could form the basis of an Annual Report presented to Full Council by the Chairman of the Audit and Governance Committee to demonstrate the effectiveness of the Committee. This Annual Report would need to be included in the update to the constitution to be considered by Council.

Supporting information

Appendix – Proposed Audit & Governance Committee Training Programme 2022-2025

Contact Points

Specific Contact Points for this report
Michael Hudson, Chief Financial Officer
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Supporting Information

Appendix - Proposed Audit & Governance Committee Training Programme 2023-2025

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.

Proposed Audit & Governance Committee Training Programme 2023-2025

Technical	Knowledge: Potential E-Learning modules
2023	
<p>Accounts – Valuations / Property, Plant & Equipment: A focus on the methods use to value and estimate values of our key assets, as well as coverage. This will inform Members ahead of scrutiny of the Councils 2022/23 draft statement of accounts</p>	<p>Audit Landscape: There are a number of national changes taking place around how external and internal audit are set out, delivered and governed. This includes ARGAs, the appointment of external auditors, fee setting and quality reviews of IA.</p>
<p>Treasury Management: This will inform members of the Councils Treasury Strategy, the reasoning behind risk, as well as how and where the Council invests / borrows its money. The cashflow forecasting employed and the accounting for treasury management.</p>	<p>Audit Code changes: CIPFA and NAO regularly carry out updates to audit codes of practice. This training will cover the basic content and updates (happening and planned)</p>
<p>Constitution: This training will coincide with the planned update of the Authority's Constitution as part of its Annual Governance Statement work. As such it will look at what is a Constitution, what does it cover and how is it applied.</p>	<p>Regulation updates: Government sets out regulations as to how finance functions, audit and audit committees must work. This session will focus on what these are and any updates (happening or planned).</p>
<p>Financial Sustainability: This will focus on how the Council assesses factors that affect its long term financial viability, including commitments, budget monitoring and management of reserves.</p>	<p>Skills Frameworks: This programme will focus on the core competencies of audit and finance, including risk based audit, estimation and forecasting.</p>

Technical	Knowledge: Potential E-Learning modules
2024	
Internal Audit: A focus on the role of IA, qualitative factors and measures, resourcing, risk based approach including three lines of defence, as well as good reporting and follow up.	Role of the Statutory Officers: who are statutory officers, what are they responsible for, where is their role defined and what does that mean for the way we work.
Business Continuity: This will focus on what is Business Continuity, when does it apply, how it is managed and what an Audit Committee should look at in assessing the effectiveness of an organisations response to incidents.	Partnership Governance: How do we work with our partners; what difference factors do we need to consider in making decisions across partnerships.
Risk Management: What is risk management, how do you assess likelihood and impact, what is a risk event, what is mitigation and residual risk, as well as what is risk appetite.	Ombudsman: Which Ombudsman bodies cover local government, how do they operate and how do we respond.
Fraud and Money Laundering: A guide to legislative requirements to safeguard public funds. How we plan and undertake checks within our controls to mitigate these risks.	Transparency & openness: why is this such an important principle of the public sector and what does it mean? How do we interpret and ensure we are in line with standards? Where do the 'grey lines' lie?
2025	
Induction & Role of an Audit Committee: Basic introduction to the purpose of an Audit Committee, the Terms of Reference, Frequency and agenda of meetings, where to find further information and introduction to key officers and partners.	External & Internal Audit: Who are they, what are their powers, what areas do they look at, how are they different. Introduction to our auditors as well as plans of work and ways of reporting to Committee.

AUDIT AND GOVERNANCE COMMITTEE

30 NOVEMBER 2022

WORK PROGRAMME

Recommendation

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

Work Programme

10 March 2023

AGS Action Plan Review
 External Audit – Audit Plan 2022/23 and Informing the Risk Assessment 2022/23
 Internal Audit Progress Report 2022/23
 Schools auditing processes
 Internal Audit Plan 2023/24
 Corporate Risk Report
 Income and Debt Management

21 July 2023

AGS Action Plan Review
 Internal Audit Annual Report 2022/23
 Draft Annual Governance Statement 2022/23
 Draft Annual Statutory Financial Statements for the year ending 31 March 2023
 Internal Audit Progress Report 2023/24
 Corporate Risk Report
 Finance Improvement Programme
 Income and Debt Management

22 September 2023

AGS Action Plan Review
 Internal Audit Progress Report 2023/24
 External Audit – Audit Findings Report
 Annual Governance Statement
 Annual Statutory Financial Statements for the year ending 31 March 2023
 Corporate Risk Report
 Income and Debt Management

1 December 2023

AGS Action Plan Review
 Internal Audit Progress Report 2023/24
 External Auditor – Annual Audit Letter
 Corporate Risk Report
 Finance Improvement Programme

Income and Debt Management

Contact Points

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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.