

The Audit Findings for Worcestershire County Council

Year ended 31 March 2016

21st July 2016

John Gregory
Director

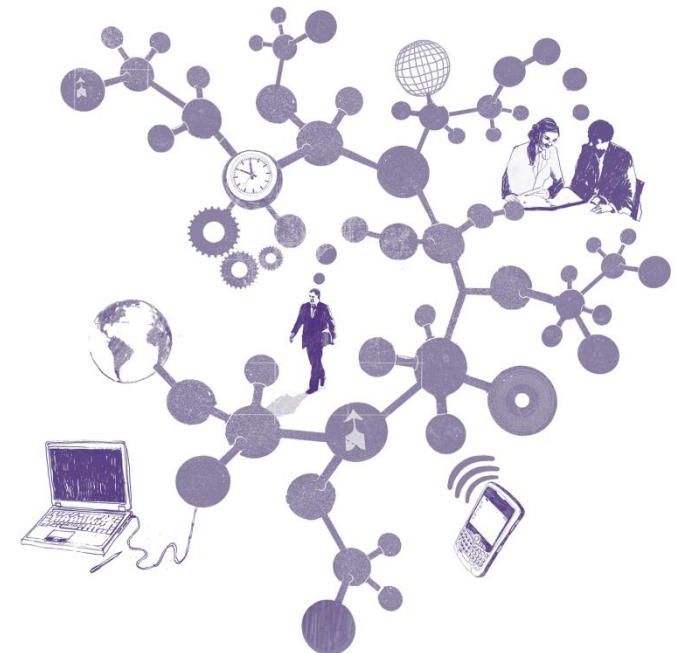
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21 July 2016

Dear Members of the Audit and Governance Committee

Audit Findings for Worcestershire County Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Worcestershire County Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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

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

Yours sincerely

John Gregory
Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Worcestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with applicable guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 18 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements,
- obtaining and reviewing the management letter of representation,
- review of revised version of the Annual Governance Statement,
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of Whole of Government Accounts return.

We received draft financial statements and accompanying working papers at the commencement of our work. Working papers in respect of property plant and equipment were much improved compared with those provided in previous years.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position. However, we have recommended a number of adjustments to improve the presentation of the financial statements and ensure greater alignment with the Code.

The key messages arising from our audit of the Council's financial statements are:

- the volume and significance of the issues raised during the audit has decreased from the prior year, and represents an improvement in the final accounts production process. There remain areas where further improvements could be made and these have been discussed with officers and are included later in the report.
- the working papers provided by the Council in respect of property, plant and equipment at year end were of a higher quality than in prior years. Further work however is needed on ensuring that the relationship between the accountants producing the financial statements and Place Partnership is sufficient to ensure that all of the required information is provided in line with the agreed timescales and of the appropriate quality.
- While we have gained appropriate assurance around the sufficiency of the impairment review carried out, the process within the Council could be better evidenced.
- the Accounts and Audit Regulations 2015 introduced a number of changes for Council's in relation to the exercise of public rights. The notice of audit initially published by the Council was not in accordance with the new regulations. This was subsequently updated on the website to ensure compliance.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to the general IT control environment. Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements, however some deficiencies have been identified.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Financial Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Chief Financial Officer and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
July 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £15.516m (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £775,800. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate, these remain unaltered.

| Balance/transaction/disclosure | Explanation | Materiality level |
|---|--|-------------------|
| Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |
| Disclosure of auditors' remuneration in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10,000 |

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|---|---|---|
| 1. | <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Worcestershire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable. | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions. | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|--|---|--|
| 3. | <p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> | <ul style="list-style-type: none"> • Review of the competence, expertise and objectivity of any management experts used, • Review of management's processes and assumptions used for the calculation of the estimate, • Review of the instructions issued to valuation experts and the scope of their work, • Discussions with the valuer about the basis on which the valuation was carried out, challenging the key assumptions, • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding, • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register, and • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. | <p>This is the first year that the Council has used PPL to value its assets, and there have been some teething problems in ensuring the correct information is provided in a timely manner. The formal valuation report was not available for the start of the audit fieldwork, nor was the evaluation of how management had satisfied themselves that for assets not revalued during the year there was no material difference to the current value held on the balance sheet. Further work was required by officers to provide appropriate assurance that assets not revalued in year were not materially misstated.</p> |

Audit findings against significant risks continued

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|--|--|---|
| 4. | <p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> | <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether the controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement, Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation, Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary, and Gained assurance over the controls over the information provided to the actuary. | <p>Our audit work has not identified any issues in respect of the pension fund net liability.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.



| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|------------------------------|---|---|--|
| Employee remuneration | Employee remuneration and benefit obligations and expenses understated. | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, discussed potential data protection issues with officers and agreed on the arrangements in place to enable appropriate audit access and evidence to be retained, Reviewed the reconciliation of the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger, Completed a trend analysis of monthly payroll data, and Tested amount paid to individual employees on a sample basis. | Our audit work has not identified any significant issues in relation to the risk identified. |
| Operating expenses | Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period. | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, Searched for unrecorded liabilities by reviewing payments after the year end, and Reviewed the Council's accrual policy and tested accrued balances and goods receipted. | Our audit work has not identified any significant issues in relation to the risk identified. |

Significant matters discussed with management

| | Significant matter | Commentary |
|----|---|---|
| 1. | Maintenance of the asset register and ensuring the quality of the information from Place Partnership. | <p>The capital accounting entries within the financial statements are significant entries, all of which are underpinned by the asset register. Like many authorities, the Council's finance team maintain an asset register in the form of a spreadsheet, which it uses for the financial statements. There is then a second record of assets held for maintenance purposes. In previous years the record held for maintenance purposes has been held and maintained within the Council. However this year is the first year where the responsibilities for these records have been held by Place Partnership Limited. During the audit we identified various instances where information held by the Council, and information held by PPL differed. While the differences were not material, it is important from both a governance and accounting perspective that these records are aligned.</p> <p>Particular difficulties were experienced around the valuation of the assets, with the valuation report not available in line with the agreed timescales. In addition, an evaluation of the carrying values of assets that had not been valued in year had not been undertaken. Officers at the Council undertook this exercise based on information provided by the valuer from PPL, but this was not available until the last week of the audit visit.</p> <p>Officers from the finance team should work with their key contact within PPL to ensure that asset records are aligned and fit for purpose. Clear instructions and expectations need to be set, particularly with regard to the valuation process, these should be agreed well in advance of the year end processes.</p> |
| 2. | Impairment review | <p>The valuation report provided by PPL included a section on impairment where it stated that they had not been made aware of any instances where the asset values were likely to be impaired. This statement relies on the Council having an appropriate mechanism in place to inform the valuer of any potential instances of likely impairment. While we were able to gain appropriate assurances that there were no instances of impairment, this was gained during the audit. In future years the Council should gather this information to feed into the instructions to the valuer, and review up to the date of approval of the accounts.</p> |
| 3. | Working papers | <p>As part of the interim audit, we discussed the quality of working papers provided for audit, and provided a detailed list of reports that would be required in order to complete the audit in an efficient and streamlined manner. In many instances the quality of working papers produced improved from the interim audit to the final audit. However, a number of the detailed reports requested were not available at the start of the audit, and in some instances took over a week to produce. This caused delays in picking audit samples, which then placed pressure on both officers and auditors to complete the testing in the timescale available. We will continue to work with officers to improve the process for future years.</p> |
| 4. | Notice of audit | <p>The Accounts and Audit Regulations 2015 introduced a number of changes for Councils in relation to the exercise of public rights. One of the key changes is that the auditor no longer sets the period for public inspection - instead the period is triggered by the Chief Financial Officer publishing the unaudited statements. Unlike in previous years, the period of inspection is for 30 working days and for 2015/16 financial year needs to include the 1st-14th July. In addition members of the public can now only raise questions with the auditor within that 30 working day period. The draft financial statements provided for audit did not include a date when the accounts were authorised for issue, and as a result this highlighted that the Council had incorrectly published the arrangements for the public inspection period. This was discussed with officers as soon as the error was identified, resulting in a revised notice of audit being published to ensure that the Council complied with the regulations.</p> |



Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---------------------------------|---|--|---|
| Revenue recognition | The Council's policy on revenue recognition is included in note 31 of the Statement of Accounts. | <ul style="list-style-type: none"> The Council's policy is appropriate and consistent with the relevant accounting framework, all material income streams are reflected in the policy. Minimal judgement is involved. The accounting policy is properly disclosed. |  |
| Judgements and estimates | Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of capital equipment Revaluations Impairments PPE valuations Provisions, and PFI | The Council's policy is appropriate and consistent with the Local Government code of Accounting Practice. <ul style="list-style-type: none"> Reliance on experts is taken where appropriate Accounting policies are properly disclosed We have reviewed the accounting models the Council have used to calculate the entries required in the accounts for the three current PFI schemes in operation. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. In all three cases there are differences, however these are below our level of materiality and therefore we consider that no further action is required. |  |

Assessment

Accounting policies, estimates and judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|---|---|---|
| Going concern | The Chief Financial Officer as s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. |  |
| Other accounting policies | | We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. |  |

Assessment

Other communication requirements

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

| | Issue | Commentary |
|----|--|---|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee, we have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | Matters in relation to related parties | <ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed. |
| 3. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation. |
| 6. | Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements, however we have highlighted some areas where improvements could be made in the future. These are contained within the table on page 25 below. |

Other communication requirements continued



| | Issue | Commentary |
|----|--|--|
| 7. | 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> <p>We have not identified any significant issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. |
| 8. | 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 are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> • Note that work is not yet completed and the planned timescale for the work has been agreed with officers for the middle of September which is consistent with prior years. We have explored the possibilities for including this work as part of the audit fieldwork, however guidance from the treasury has not been available to enable this work to be completed earlier than the September timescale. |



Internal controls

The purpose of an audit is to express an opinion on the financial statements.



Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| | Assessment | Issue and risk | Recommendations |
|----|---|--|---|
| 1. |  | <p>SAP* unlocked and dialogue account The default account SAP* is shipped with SAP and is the most privileged account within the system. Good practice is that this account is set to a 'system' type account and locked, meaning that it cannot be logged into. The SAP* account within WCC's SAP environment is currently unlocked and set as a dialogue type account. The misuse of the account could lead to inappropriate or inappropriate postings or system configurations to be made. Discussions with management confirmed that they are aware of this situation and working to resolve it.</p> | <p>WCC management should ensure that the work started on locking the SAP* account is completed. Any use of the SAP* account should be subject to a formal change request.</p> |
| 2. |  | <p>Weak logical access controls for SAP The logical access controls for SAP are weak. In particular the following issues were identified: passwords are only required to consist of lowercase letters and one number, there is no requirement to have a mixture of upper / lower case letters or a special character and passwords are only required to be six characters long. These conditions pose the risk of user accounts been compromised through password guessing or cracking.</p> | <p>The strength of the password controls for SAP should be increased to comply with recognised good practice:</p> <ul style="list-style-type: none"> • passwords should be required to be at least eight characters in length • passwords must be required consist of at least one number and upper / lower case letters. <p>Management should review the existing transport release procedures to ensure that a test of the SAP logical access parameters is included in the testing of patches.</p> |

Assessment
 Significant deficiency – risk of significant misstatement
 Deficiency – risk of inconsequential misstatement


Internal controls

| | Assessment | Issue and risk | Recommendations |
|----|---|---|--|
| 3. |  | <p>Automated notifications of leaver and mover activity When a member of staff leaves the Council their line manager is required to log a ticket on the IT Service Desk to initiate the account termination procedures.</p> <p>Good practice is that this process should be initiated by HR staff, as these employees will have the greatest visibility over staff leaver activity. We acknowledge that monthly leaver lists are sent to the IT Service Desk team for a mop-up exercise of any accounts that may not have been terminated at the time of the employee's departure, however this still creates a risk that unrequired accounts may remain live for up to 30 days. This creates the risk that users bypass or override manual internal controls to commit fraud.</p> | <p>A process should be developed so that system administrators are notified of users leaving the Council by HR. If this control cannot be implemented alternative mitigating actions should be introduced, such as increasing the frequency that HR activity reports are sent to system administrators.</p> |
| 4. |  | <p>The number of unsuccessful logon attempts allowed before the active directory locks the account is unreasonable User accounts within Active Directory were not automatically locked (i.e., prevented from future logins) after 50 failed log in attempts. The rationale for this large value is to reduce the number of service desk calls whilst minimising the risk from breaking passwords through brute-force or guessing. The current design of the control has a weakness in that 50 attempts will only prevent password guess when the attacker does not know any information about the user. In cases where the attacker knows personal information about the user, as is the case in most office environments, it may be possible to guess a user's password in less than 50 guesses.</p> | <p>We understand that organisations consider the trade-off between password complexity and the potential number of support calls when users forget their password settings, but it is important that security is not diluted to a point where it is no longer an obstacle to unauthorised access. Consideration should be given to reducing the number of failed log in attempts that users can make to an acceptable number. Typically this should be in the range of between 3 and 6 attempts.</p> |

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Internal controls

| | Assessment | Issue and risk | Recommendations |
|----|---|---|---|
| 5. |  | <p>Users with excessive access rights</p> <p>The user group 'AUDIT' has access to a number of transaction codes that should be limited to only the SAP BASIS team:</p> <ul style="list-style-type: none"> • SA38 – allows a user to run a program from the SAP command line • RZ10 – allows modification of the SAP system parameters • SM30 and SM31 – display and update database tables • SPRO – modify system parameters • SM49 – execute external operating system commands • SM37 – view and modify batch scheduler <p>Discussions with WCC SAP management established that this profile should enable only read-only access to these transaction codes. However, the complex security model of SAP makes creating a true read-only profile very difficult. As such there is always a residual risk that users are allocated greater than read-only access who should not have it.</p> | <p>The transaction codes assigned to the user group 'AUDIT' should be reviewed to ensure that only the minimum functionality required for audit purposes is assigned to this group.</p> |

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls – review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|--|--|
| 1. | ✓ | <ul style="list-style-type: none"> The organisation has not adequately secured the SAP default accounts. Default passwords should be changed to avoid the risk of system compromise. | <ul style="list-style-type: none"> Passwords changed, with no issues identified in relation to default passwords as part of the IT control environment review |
| 2. | ✓ | <ul style="list-style-type: none"> We performed a data analytics exercise to identify users who have conflicting functionality within the SAP environment. This identified a large number of users who have functions that are considered a risk for users to have in combination | <ul style="list-style-type: none"> Functions reviewed, and no further issues identified as part of this years IT control environment review. |
| 3. | ✓ | <ul style="list-style-type: none"> Users have indirect access to the database via operating system commands in SAP. | <ul style="list-style-type: none"> Access reviewed, and no further issues identified as part of this years IT control environment review. |
| 4. | ✓ | <ul style="list-style-type: none"> There is no circulation performed for Senior Officers' interests: they are monitored on a exception basis. The officer makes the declaration to their line manager and it is recorded in Officers' declaration and transferred to the electronic register. | <ul style="list-style-type: none"> Officers reviewed the arrangements in place and consider them to be sufficient to identify any related party transactions. |

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

| Detail | Statement/Notes effected |
|--|--|
| 1 Debtor and creditor balances have been overstated by £821k. This relates to the funding arrangements around PPL, where the Council have agreed to pay for services in advance. | Trade debtors and trade creditors are to reduce by £821k, as well as the associated changes to both the cashflow statement and notes. There is a nil impact to the bottom line of the Council. |

Unadjusted misstatements

The table below provides details of adjustments identified during the 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 | Reason for not adjusting |
|---|--|
| 1 Assets held for sale. Assets should be revalued before there is a change in classification as per the Code guidance notes. The total asset value transferred in to the asset category was £1.143m, the assets were then revalued with a net effect of £836k, giving a final value of £2m. | Immaterial adjustment to classification. |

Misclassifications 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.

| Adjustment type | Account balance | Impact on the financial statements |
|---------------------|--------------------------------|--|
| 1 Disclosure | Various | <p>Our review of the accounts highlighted some 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.</p> <p>Examples include a range of typographical errors, note references that have not been updated, and amounts disclosed within tables not reflecting the most up to date position. In addition we have noted some areas where additional clarity has been needed within the narrative disclosure to ensure compliance with the code.</p> |
| 2 Disclosure | MRP | <p>Two errors were identified in the way the Council calculated the MRP provision. The revised calculation shows a provision of £12.998m, compared to the original provision of £13.712m, a reduction of £714k. This was as a result of the initial working paper provided being put together based on the old policy rather than the revised policy as agreed by the Council.</p> |
| 3 Disclosure | Narrative Statement | <p>The guidance states that the narrative report should provide an analysis of the financial and non-financial indicators which are relevant to the performance of the authority. While some information is presented in this respect, the report could be enhanced with more specific key service performance indicators. In addition greater narrative could be provided around future capital projects. In general, while the narrative report is technically compliant with the guidance there is scope to improve the disclosures and provide a greater level of transparency for the reader of the accounts.</p> |
| 4 Misclassification | Debtor balance £41m | <p>An error was identified in our testing of the cut off of income. An invoice was raised in April relating to £13k which had not been accrued for in line with the Council's agreed accounting policies. The extrapolated value of the error if applied to the whole debtors balance was £4.2m. However, as this falls below materiality no further action is required in relation to the error identified.</p> |
| 5 Disclosure | Critical accounting judgements | <p>Two amendments have been agreed to this note, firstly additional narrative has been added to explain that the exercise in relation to schools accounting took place during the previous financial year and that officers have made enquiries to ensure that the judgements remain valid in the current financial year. Also the draft note included £8.85m of assets held for sale, this is incorrect as the non operational assets of £8.85m include £6m of surplus assets and £2.87m of assets held for sale.</p> |

Misclassifications and disclosure changes continued

| Adjustment type | Account balance | Impact on the financial statements |
|---------------------|--|---|
| 6 Misclassification | Children's services income and expenditure. Adult Social care income and expenditure. | An analytical review of the financial statements identified that recharges of £7.2m had been incorrectly accounted for by being included under incorrect headings. The appropriate adjustments have now been made to the final set of financial statements. |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 18 March 2016.

- Progress made against the Council's vision to become a Commissioning authority,
- Arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees,
- Arrangements for managing the overspend in relation to Children's services, and
- The arrangements in place for working with local health partners.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Significant qualitative aspects

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

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

- The current financial savings plans of the council, and delivery of those savings,
- The management of the budget within children's services, and
- How the Council was working with others to achieve its corporate objectives, focusing specifically on its relationship with health partners, but also the commissioning of services.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this, can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed the following recommendation for improvement.

- As part of reviewing the budget reports and the information presented to members, we have discussed with officers the levels of reserves and balances currently held when compared with other similar local authorities. While we acknowledge the rationale for these balances, there is scope to include greater transparency in the budget reporting.

Management's response to this can be found in the Action Plan at Appendix A.

Key findings

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

| Significant risk | Work to address | Findings and conclusions |
|---|---|--|
| <p>The Corporate Plan clearly set out the vision of the authority to become a 'Commissioning Authority'. The Council has progressed well against this vision, with a number of services now provided by others, either through contracts with the private sector, or more recently through the setting up of a local authority trading company.</p> | <p>We have reviewed the Council's current progress against its vision and gained an understanding of the picture of Commissioning across the authority.</p> | <p>The Council currently provides a significant proportion of its services, (just over 75%) through external providers. The services provided in this way are wide ranging, and include residential and nursing provision (£64m), day care and supported living (£44m) and waste management (£39m). Officers and members recognise the importance of good commissioning arrangements and the authority has been restructured to enable the focus in this area to continue. Investment has been made to ensure that the Council has the appropriate skills in place to both negotiate contracts and manage those already in place.</p> <p>During the year, there has been significant activity, including the creation of Place Partnership, a property asset management local authority trading company, the commissioning of Learning and Achievement support services to Babcock international, internal commissioning of children's residential centres and the sale of ICT to Schools to Capita Children's Services. In each case the benefits to both the Council and service users have been carefully considered and reported to members.</p> <p>The Council continues to look at the varied ways that services can be provided and how to achieve the best outcomes for its service users. Given the current budget constraints this area will continue to be key to ensuring the financial sustainability of the Council.</p> |

Key findings continued

| Significant risk | Work to address | Findings and conclusions |
|---|--|--|
| <p>The Council identified savings of £23.8m as part of the 2015/16 budget setting, £12.6m of which would come from the Directorate of Adult Services and Health. Like many other County Councils, the draft financial settlement for 2016/17 was worse than expected, and as a result further significant savings will need to be made to balance the budget.</p> | <p>We have reviewed the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p> | <p>Historically the Council has a strong track record of meeting its financial targets. The outturn position after the transfers to directorate reserves shows a surplus of £0.8m on actual expenditure of £331m. As for the prior year, this year end position continues to mask a significant cost pressure in children's services of £5.7m. This cost pressure has been consistently predicted and reported throughout the year, with detailed reporting explaining how the actions taken have not been able to contain spending within the original budget.</p> <p>The original savings target has been delivered, however £3m of this was met with one off savings rather than those originally planned. These un-met savings have been carried forward and are included within the 2016/17 targets as part of the medium term financial plan.</p> <p>Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying £24.8m of savings to be made in 2016/17, with further savings of £34.1m in 2017/18, £24.1m in 2018/19 and £21.7m needed in 2019/20. For 2016/17 plans are in place for the achievement of the £24.8m, with work well advanced on how savings could be achieved in future years.</p> <p>As part of reviewing the budget reports and the information presented to members, we have discussed with officers the levels of reserves and balances currently held when compared with other similar local authorities. While we acknowledge the rationale for these balances, there is scope to include greater transparency in the budget reporting.</p> <p>While the long term funding of the Council continues to reduce, there are appropriate arrangements in place to balance the budget. Officers and members continue to demonstrate a good understanding of the financial constraints that they are working within, and how these can be managed to produce the best outcome for residents.</p> |

Key findings continued

| Significant risk | Work to address | Findings and conclusions |
|---|---|---|
| <p>As at October 2015 the forecast overspend in children's services is projected to be £5.8m. This is due to costs of placing children in external placements. This area of expenditure continues to cause significant financial pressures on the overall budget.</p> | <p>We have reviewed the Council's arrangements for managing the overspend, and the plans in place to ensure that this service is sustainable.</p> | <p>The authority continue to recognise the challenges it faces for looked after children, and while putting in place a number of areas of work around demand management and cost reductions, due to the nature of these projects there is limited evidence of success in the short term. Further budget pressures have been identified in 2016/17 with a further £5m of growth being included in the budget in this area.</p> <p>There is evidence that key parts of the recovery plan are being achieved, however given the nature of the service there remain risks and sensitivities that the plans in place do not deliver the requirement improvements in outcomes and reductions in costs as envisaged over the medium term financial plan.</p> <p>There is clear scrutiny in this area, and arrangements appear appropriate.</p> |
| <p>The Health economy within Worcestershire continues to face difficulties. How the Council works with Health partners will be key to the achievement of its own strategic objectives.</p> | <p>We have reviewed the Council's arrangements for working with its health partners.</p> | <p>The Corporate plan has four areas of focus, one of these is the Health and Wellbeing of Worcestershire. The plan recognises that key to the achievement of this objective is the need to work in partnership with a wide range of organisations.</p> <p>The county has a number of arrangements in place as to how it works with the health sector and other interested partners. Part of these arrangements include the operation of the Health and Well Being board and the Health overview and scrutiny committee.</p> <p>Progress on the areas of focus within the Corporate Plan is regularly monitored by the Cabinet, with key achievements such as the introduction of 'Your Life Your Choice' and the success of the promoting independence programme being recognised.</p> <p>There is evidence that officers from both the Council and local health bodies work well together, with progress made in a number of areas, particularly in the re-commissioning of services such as integrated recovery. These arrangements will need to continue to develop as funding continues to reduce across the whole of the public sector.</p> |

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

| | Budget £ | Actual £ |
|----------------------------------|----------|----------|
| Council audit | 95,446 | 95,446 |
| Total audit fees (excluding VAT) | 95,446 | 95,446 |

Grant certification

The only fees for grant certification which falls under the remit of Public Sector Audit Appointments Limited relates to the certification of Housing Benefit, and this does not apply to county councils. Any other certification work is required to be carried out under the terms of a separate engagement letter and these are disclosed as part of the audit related services line.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

| Service | Fees £ |
|--------------------------------|-----------|
| Audit related services: | |
| • Gypsy and Traveller grant | £3,000 |
| • Major Transport Grant | £3,500 |
| • SFA compliance work | £4,000 |
| Non-audit services | £0 |

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|--|---|
| 1 | Officers from the finance team should work with their key contact within PPL to ensure that asset records are aligned and fit for purpose. Clear instructions and expectations need to be set, particularly with regard to the valuation process, these should be agreed well in advance of the year end processes. | Medium | Management will meet with PPL and work to align data and expectations with the aim of improving processes. | Senior Finance Manager 31 March 2017 |
| 2 | The Council should gather information from heads of service as to any potential impairment to assets. This should be used to feed into the instructions to the valuer, and reviewed up to the date of approval of the accounts. | Medium | This will be done as part of the evidence process and provided to PPL to support their improvement work. | Senior Finance Manager 31 March 2017 |
| 3 | The detailed working paper checklist provided by audit should be reviewed prior to the on site visit to ensure that all requested reports are available. | Medium | Procedures will be put in place to record report requests prior to site visit. | Senior Finance Manager 31 March 2017 |
| 4 | The arrangements for the public inspection period should be reviewed annually as part of the final accounts preparation timetable to ensure that it is in line with the Accounts and Audit Regulations. | Low | This will be reviewed for next years public inspection process. | Senior Finance Manager 31 March 2017 |

Appendix A: Action plan continued

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|--|--------------------------------------|
| 5 | <p>WCC management should ensure that the work started on locking the SAP* account is completed. Any use of the SAP* account should be subject to a formal change request.</p> | Medium | <p>SAP* account lock down is now complete and is reviewed as part of the support packs and upgrade process to ensure it has not reverted to factory settings.</p> | |
| 6 | <p>The strength of the password controls for SAP should be increased to comply with recognised good practice:</p> <ul style="list-style-type: none"> • passwords should be required to be at least eight characters in length • passwords must be required consist of at least one number and upper / lower case letters. <p>Management should review the existing transport release procedures to ensure that a test of the SAP logical access parameters is included in the testing of patches.</p> | Medium | <p>SAP password format has been realigned to WCC AD account policy and is reviewed as part of the support packs and upgrade process to ensure it has not reverted to factory settings.</p> | |
| 7 | <p>A process should be developed so that system administrators are notified of users leaving the Council by HR. If this control cannot be implemented alternative mitigating actions should be introduced, such as increasing the frequency that HR activity reports are sent to system administrators.</p> | Medium | <p>WCC have an automated process such that when leavers are taken off the payroll their SAP user is locked. We are currently reviewing our leavers' process in the light of working within a commissioning authority. As more services are commissioned out and more users work for other organisations greater reliance is put on external organisations telling us that users have left. HR will be included as part of this review.</p> | |

Appendix A: Action plan continued

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---|---|
| 8 | We understand that organisations consider the trade-off between password complexity and the potential number of support calls when users forget their password settings, it is important that security is not diluted to a point where it is no longer an obstacle to unauthorised access. Consideration should be given to reducing the number of failed log in attempts that users can make to an acceptable number. Typically this should be in the range of between 3 and 6 attempts. | Medium | We recently tried to reduce the number from 50 to 5 and this resulted in a vast increase in Service Desk calls that was both not acceptable and resulted in a huge security risk since passwords were being changed so regularly they were being written down. We would be willing to try a lower value of say 25 and potentially reduce further over time. | |
| 9 | The transaction codes assigned to the user group 'AUDIT' should be reviewed to ensure that only the minimum functionality required for audit purposes is assigned to this group. | Medium | The access group Audit is restricted to read only access to a very wide range of transactions on the basis that Audit should have full read only access to the system. The Audit role is tested thoroughly during the patching and upgrade processes. | |
| 10 | Greater transparency should be included in the budget reporting as to the rationale for holding the levels of reserves and balances recommended. | Medium | This will be enhanced when the Council approves the 2017/18 budget in February 2017, which will be a publically available document, and this will be referred to as appropriate in the statutory accounts. | Senior Finance Manager 31 March 2017 |

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE COUNTY COUNCIL

We have audited the financial statements of Worcestershire County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

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

Colmore Plaza
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Birmingham
B4 6AT
xx July 2016



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