

# The Interim Audit Findings for Worcestershire County Council

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**Year ended 31 March 2017**

**July 2017**

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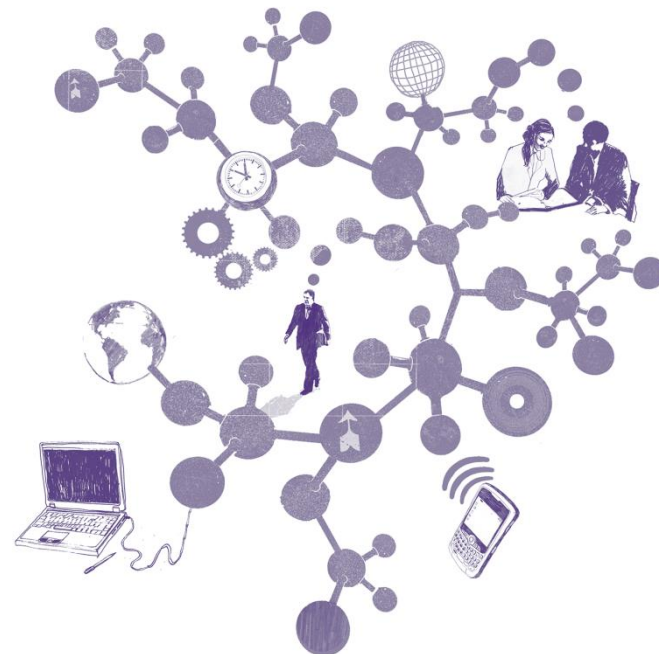
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21<sup>st</sup> July 2017

Dear Members of the Audit Committee

**Interim Audit Findings for Worcestershire County Council for the year ending 31 March 2017**

This Interim Audit Findings report presents the interim findings arising from our audit of the County Council's accounts for the year ended 31 March 2017. We were due to have concluded our audit in time to present our full Audit Findings Report to the 21<sup>st</sup> July meeting of the Audit Committee, but for the reasons set out in this report, this has not been possible and the full report will instead be presented to the 26 September meeting. This interim report is being submitted to the July meeting in order to inform you as 'Those Charged With Governance' of the progress on the audit, the findings so far and the reasons for the delays.

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

Yours sincerely

John Gregory, Director

**Chartered Accountants**

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# Section 1: Executive summary

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## Purpose of this report

This Interim Audit Findings report presents the interim findings arising from our audit of the County Council's accounts for the year ended 31 March. We were due to have concluded our audit in time to present our full Audit Findings Report to the 21 July meeting of the Audit Committee, but for the reasons set out in this report, this has not been possible and the full report will instead be presented to the 26 September meeting. This interim report is being submitted to the July meeting in order to inform you as 'Those Charged With Governance' of the progress on the audit, the reasons for the delays, the findings so far and the plan to complete the audit.

This interim report intentionally does not cover all of our duties and responsibilities, and nor does it therefore meet all of the areas we are required to report to you under International Auditing Standard 260. Our report to the September meeting will address all the required areas.

## Background

As we do each year, we agreed with the Chief Financial Officer and his team a timetable for the audit which should ensure that the audit is concluded at an appropriate time, and enables both the Council and ourselves to plan the appropriate resourcing for the audit visit. The agreed plan for this year's audit was that the Chief Financial Officer would make the accounts available to us on 18 May, and that we would carry out our onsite audit from then until 16 June. We estimated the number of audit days and grade of staff which would be required within that timescale and have made these resources available in full.

Members will be aware that the statutory deadline for the publication of audited local authority accounts is being brought forward, with the statutory requirement coming forward to 31 July with effect from the 2017/18 audit. Many authorities have sought to use the preceding two years as a 'dry run' for this demanding schedule. In the case of Worcestershire, which already has a track record of early completion of the accounts and audit process, we agreed to finalise the audit so that the accounts could be formally approved at the 21 July meeting of the Audit Committee, thus meeting what will next year be the statutory deadline.

In addition to the audit of the Council's accounts, we also carry out work to give our value for money (VFM) conclusion on the Council, and carry out an audit of the accounts of the County Council's Pension Fund. We have been able to complete our work on the VFM conclusion in the planned timescales and this is reported in section 3 of this report. The work on the Pension Fund audit has also gone to schedule and we are reporting the outcome of this in a separate Audit Findings Report. Members should note that, while the Pension Fund audit work is completed, we cannot issue the opinion for the Fund until the work on the County Council's main accounts has been concluded.

## The accounts audit

Our audit of the Council's accounts has been significantly delayed and the total amount of work we are having to carry out has increased significantly. The main reasons for this are:

- We were not provided with the Council's draft accounts on the agreed date of 18 May.
- The first version of the accounts which we were provided with, on 22 May, contained a large number of obvious errors. For example, notes which provided a breakdown of figures in the primary statements did not add to the total figure in the accounts.
- We discussed with officers the potential options for the audit completion at this stage, including whether it was more efficient for the audit team to cease the audit and reschedule at a later date to give the finance team more time to prepare the draft accounts and working papers. Officers gave us assurances that they would be able to provide a second draft set of accounts by 25 May, and we agreed a number of key areas of the accounts where work could commence as no significant issues had been identified in these areas from a review of the initial accounts provided and that working papers were available. As a result the audit work was rescheduled to accommodate this request.

- The second draft of the accounts was provided on 25 May. As agreed with officers this did not include the narrative statement or the annual governance statement. The draft narrative statement was provided on 5 June and the draft AGS on 1 June. These were provided in time to meet the authority's timetable for publication and to trigger the public inspection period.
- A high level review of the accounts raised over 60 different queries for the finance team to resolve. These queries ranged from questions on the application of accounting policies and adherence to the Code, requests for officers to explain significant differences from prior years, or to highlight errors with the draft accounts. The volume of queries from this high level review has doubled compared to previous years.
- While we sought to agree the approach to the more difficult areas of the accounts as part of our interim audit, in practice this has not paid off this year because, while we discussed the issues during the interim audit, the finance team have not then in the intervening period responded to the issues we raised at that time about the proposed treatment and disclosures. In particular:
  - In relation to the 'Telling the Story' project, which required changes to the layout of two of the primary statements, the production of a new Expenditure Funding Analysis and a prior period adjustment, the finance team have not been able to demonstrate the rationale for the notes produced, or provide clear working papers which explain how the entries in the accounts agree to the internal reporting used and the information from the accounting system.
  - In relation to the accounting for the Energy from Waste scheme which came into use during the year, we asked to review changes to the models and the proposed accounting treatment as part of the initial interim visit. This was not available as agreed, or made available as part of our agreed third interim visit in April. Our initial review of the work as part of the final accounts visit has raised a number of questions about the model used and the actual costs included within the accounts. We have sought the views of our specialist technical team on some aspects of the model and have agreed with officers that this work will need to be concluded in September as part of our additional final accounts visit.
- We agreed with officers in December as part of our initial planning a more automated approach to sample selection, which relied on your IT team providing some key reports. Due to some of the difficulties encountered with the new financial system, the IT team did not have the time to commit to this, and as such sample selection in key areas was delayed until the final visit, placing further pressure on both the finance and the audit team.
- Since we commenced the final accounts audit, the responses to queries raised have in some cases been late and also in some cases inadequate. For example our work on journal testing commenced on 18 May and a sample of journals was selected for testing. The last of the supporting information for the items selected was provided on 9 June. We have also noted that a significant number of request for supporting information from departments have simply been returned with a copy of a print from the general ledger system, which is where the sample item has been selected from in the first place. Members of finance teams have all been provided with training, which was supported by external audit, on the type of supporting information that would be required for the final audit, and it is clear that this has not been followed in practice.
- Responses to some issues were delayed because the Council's old ledger system, from which the accounts were compiled, was unavailable for over a week following problems with the servers the system was held on and a reduced number of back ups being made as the system was no longer 'live'.

## 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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report as provided to us, we have concluded that this is in line with our understanding of the audit and meets the minimum disclosure requirements as set out in the Code. Our review of the draft AGS has raised a number of concerns which we are discussing with officers, and these are included in section 2 later in this report.

## 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

So far, the only control deficiencies we have identified are those we reported in the audit plan in relation to the IT control environment.

Further details are provided within section two of this report.

## Value for Money

As noted above, we have been able to substantially complete our work in respect of the VFM conclusion.

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted that the 'inadequate' rating for Children's services issued by Ofsted in January 2017 demonstrates weaknesses in the Council's arrangements for this service, which will give rise to a qualified 'except for' conclusion

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

## Audit fees

As set out in our Fee Letter, the audit fee is set on the basis of an assumption that the accounts provided for audit and the supporting working papers will be of a good standard. The work which we have completed to date has used the full allocation of time budgeted for your audit. We will therefore be seeking an appropriate additional fee, which will need to reflect the additional time required for the audit team to complete the work. The level of fee will be discussed with the Chief Financial Officer prior to approval by PSAA and the Audit and Governance Committee.

## **The way forward**

We have agreed an approach with the Chief Financial Officer which is intended to ensure that the Council can still comply with the statutory requirement which remains in force this year to publish its audited accounts by 30 September. We have provided an agreed list of outstanding queries with the finance team and have also ensured that they are aware of those areas of the account which we are still to audit. More detail on the outstanding areas is included in section two.

As part of that approach, we will produce a further Audit Findings Report to the Audit and Governance Committee for its September meeting.

We will in due course also agree with the Chief Financial Officer actions to be taken to prevent any recurrence of this year's issues in next year's audit. This is especially important given that the statutory deadline for next year's audit will be 31 July rather than 30 September, and it will also be the first year in which the accounts have been compiled from the new ledger system.



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## Section 2: Accounts Audit

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £15.498m (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have revised our level of materiality in line with the reduction in gross revenue expenditure to £15.232m (being 2% of gross revenue expenditure).

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 £761k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

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

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of auditor's remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
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

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

## Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee. Members should note that as part of the audit plan we reported the high level review of the general IT control environment that was undertaken as part of the overall review of the internal controls system. Our work identified no material weaknesses in relation to the system in operation for 2016/17 that would adversely impact on the Council's financial statements. We did however identify a number of recommendations for improvement, which focussed on password control, user rights and staff awareness of the Information Security Policy. Of the nine recommendations made, seven have been agreed and have either been implemented or a plan is in place for implementation. For the remaining two recommendations officers have acknowledged the risk and intend to rely on compensating controls.

The matters reported above 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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Errors and disclosure issues to date

A number of errors and disclosure issues have been identified during the audit process to date. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We will agree with management at the end of the audit work which amendments are required to the accounts. The table below summarises the issues which have arisen to date.

	Area of accounts	Detail	Error or disclosure issue (E/D)	Possible impact
1	Various	Our initial review of the accounts highlighted various improvements that were required to the accounts. These included a range of formatting issues and typographical errors, amendments for consistency in abbreviations and consistency between balances highlighted in narrative reporting and those used in tables or elsewhere within the financial statements.	Disclosure	The final draft version of the financial statements presented to the audit and governance committee in September will need to be amended and be subject to a formal quality assurance process to ensure that all of these errors are identified and corrected.
2	Accounting policies	Whilst determining the sample for cut off testing it is necessary to remove transactions which are below the de-minimus that the Council sets for non-accrual. In the prior year this was set at £5,000 and was recorded in the accounting policies. It was confirmed with officers that the limit of £5,000 was set for the 2016/2017 year but this has not been recorded in the accounting policy. In addition there is no accounting policy in relation to the better care fund, which is a significant item of expenditure for the County Council.	Disclosure	The accounting policies disclosed in the draft accounts to be amended for these omissions.
3	Segmental Reporting	Note 1.03.01 Segmental Reporting 2016/2017. The total for third party payments is £318.0m, this was checked against the report used for the CIES agreement to the ledger. This report shows the total for third party payments to be £319.6m which is £1.6m different to the figure in the note.	Disclosure	The segmental reporting notes link into the work on the 'telling the story' changes previous discussed. This error will be considered alongside the further work that officers are undertaking in this area.

## Errors and disclosure issues to date continued

Area of accounts	Detail	Error or disclosure issue (E/D)	Possible impact
4 Opening balances	In 2015/2016 there was an adjustment in respect of the PPL debtor and creditor of £821k. The Council amended the accounts but did not put the adjustment through in the ledger. During the interim audit the Council informed the audit team that the adjustment would be put through but confirmed on 05/06/2017 that this had been missed and not put through. The Council have completed the adjustment so there is no impact on 2016/2017. We have reviewed the circumstances that lead to the error in 2015/16 and have confirmed that this has been correctly treated in 2016/17.	Error	Opening balances in respect of debtors and creditors incorrect.
5 Nature and extent of risks arising from Financial Instruments (Note 2.05.4)	The credit risk table is incorrect and should be amended as follows; 1-3 months £1.6m, 3-6 months £0.6m, 6-12 months £0.8m over 1 year £2.4m. Total 5.4m	Error	Note 2.05.4 to be amended
6 Fair Value (Note 2.05.3)	The fair value of the PFI liabilities disclosed for 31 March 2017 should be £198.0m not £245.2m	Error	Note 2.05.3 to be amended
7 Contractual commitments (Note 2.01.4)	The value of the capital programme at 31 March 2017 has been disclosed as £343m; this should be £195.7m	Error	Note 2.01.4 to be amended
8 Adjustments between Accounting Basis and Funding Basis under regulation (Note 1.02)	Capital grants & contributions unapplied credited to the CIES is £62.0m not the £51.2m as reported. Similarly the Application of grants to capital financing transferred to Capital Adjustment account should be £60.7m and not £49.9m	Error	Note 1.02 to be amended

## Errors and disclosure issues to date continued

	Area of accounts	Detail	Error or disclosure issue (E/D)	Possible impact
9	Various	The draft advert for the public inspection period was incorrect, in particular not specifying that the period of inspection was only open for 30 working days.	Error	The audit team reviewed the draft advert and commented on the revisions needed so that the authority could correctly comply with the regulations.
10	Assets under construction	Assets under construction have been overstated by £3.062m due to an error in capitalising some of the costs in relation to the Energy from Waste project.	Error	Assets under construction overstated by £3.062m
11	Leases (Note 1.14)	The split of leases expiring should be as follows; expiring in 1 year £0.1m (currently disclosed as £2.4m), 1-5 years £0.3m (currently disclosed as £0.5m), and over 5 years £13.3m (currently disclosed as £12.9m). The total of which is £13.7m and not the £15.8m currently disclosed in the narrative section of this note.	Error	Note 1.14 to be amended
12	Officers' remuneration (Notes 1.07.1 and 1.07.2)	For remuneration over £50,000 per annum, the prior year figures do not agree to those reported in the financial statements last year. Various errors were identified with the senior officers' remuneration notes, included that child care vouchers had been omitted from the calculations.	Error	Notes 1.07.1 and 1.07.2 to be amended

## Key outstanding issues

At the end of our planned final accounts audit visit, we have agreed with the Chief Financial Officer's team a schedule of outstanding queries which need to be resolved in order for us to conclude our audit work later in the Summer. The key outstanding issues are listed below

Area of accounts		Detail
1	Telling the Story Changes	We have reviewed the changes to the accounts made to restate the CIES into the same format that the Council uses for internal financial reporting. We have also reviewed the associated new Expenditure Funding Analysis and accompanying notes. These were first reviewed as part of the interim audit, where we raised a number of queries. The queries have remained unresolved and there is a lack of working papers to demonstrate the rationale for the restatement and how this agrees to accounting records and complies with the Code. We have discussed the issues with officers and agreed that further work is needed prior to the September audit visit.
2	Energy from Waste PFI	There are a number of queries in relation to the accounting model used, and the costs that have been recorded for the new plant. Officers are currently working on clarifying these costs with the operator. In addition following our initial review we have raised some queries with our national technical team.
3	PPE	There are a number of queries in relation to PPE that are outstanding. These are mainly in relation to the valuation process and how the authority has assured itself that the values of assets that have not been revalued in year are not materially different from their fair value.
4	Cut off testing of revenue and expenditure	To test that income and expenditure has been coded to the correct year we test a sample of transactions from the new year. Due to the implementation of the new system, there has been difficulty in obtaining the necessary reports to enable this testing to take place. The reports were run in the last week of the audit visit, however these showed significantly lower populations than previous years, and therefore we are exploring with officers the reasons for this and whether further testing is needed to demonstrate the completeness of these reports..
5	Testing of operating expenditure and creditors	There are a number of items where officers are yet to provide evidence to support the item of expenditure. We have queried one item of the population with officers as the evidence provided to date suggests that this has been incorrectly classified as a creditor. Depending on the results of the remaining items selected in the sample further testing may need to be undertaken.
6	Employee remuneration	Testing of termination payments is outstanding as officers are yet to provide evidence for a number of items within the sample. Further work is also needed on the reconciliation of employee remuneration disclosed in the accounts to the data provided for testing the population.

## Key outstanding issues continued

Area of accounts		Detail
7	Queries from the high level review of the accounts	The high level review of the accounts by the engagement lead and audit manager identified a significant number of areas where officers needed to provide explanations for the issues raised. These were received in the last week of the audit visit and therefore the audit team have not had time to fully review the responses and agree the changes required to the draft accounts.
8	Annual Governance Statement	We are discussing with the CFO some aspects of the AGS to gain a better understanding of the process for compiling it and the basis of the decisions which have been taken to include or exclude some issues. The CFO is in any case reviewing the content to ensure that it provides a fully up to date picture.



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## Section 3: Value for Money

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## 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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 January 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 24 March 2017.

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 the delivery of those savings,
- The final outturn position for 2016/17 and progress towards closing the gap in future years
- The arrangements the Council has put in place to respond to the recent Ofsted inspection, and the impact that the inadequate rating has on the overall arrangements in place.

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

## Overall conclusion

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

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

## Recommendations for improvement

We discussed findings arising from our work with management and have not identified any specific recommendations. We note that the Council has a detailed action plan to respond to the Ofsted report, and that this is being monitored on a regular basis through a variety of mechanisms, including monitoring visits from Ofsted to review the progress being made. As part of our VFM work in future years we will continue to review how this action plan is being implemented and how it demonstrates improvement in the overall services provided.

## 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><b>Medium Term Financial Plan</b></p> <p>The budget position for 2017/18 and beyond remains challenging. The December 2016 cabinet report highlighted a gap of £2.9m needed to balance the budget for 2016/17. It further set out the level of savings required in future years, with the shortfall in funding for 2018/19 of £31m, and then falling to £22m in years 2019/20 and 2020/21.</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 that break even has been achieved for 2016/17.</p> <p>The achievement of break even has only been possible by an increased reliance on use of reserves and one off funding, demonstrating the consistently more challenging financial environment that the Council operates within.</p> <p>Significant cost pressures continue to exist in both adult and children's services. Adult services reported an underlying overspend of £6.7m, which has primarily resulted from cost pressures due to demographic and market pressures, and delays in achieving the savings plans. Children's services also reported an underlying overspend, this time of £5.2m, which has, like Adult services been met from use of reserves.</p> <p>In previous years we have reported on the overspends in Children's services and the cost pressures arising from looked after children placements. The budget has been strengthened, and this combined with cost management has resulted in an improved budget position during the year. It is however worth noting that the forecast underspend in this area was reduced towards the end of the year, as looked after children numbers increased following the Ofsted review.</p> <p>The most significant pressure in Children's services during the year has been as a result of Home to School Transport, where a growth in special needs provision, a delay in the achievement of savings and a reduction in income have all contributed to an overspend.</p> <p>The original savings target has not been delivered, with £6.5m of the savings been carried forward and included in the 2017/18 targets as part of the medium term financial plan. This represents 26% of the savings target, and compares to non delivery against the savings target last year of 11%. The Council continues to demonstrate that it has the necessary reserves in place to manage the slippage of these savings plans in the medium term.</p> <p>Like many other similar local authorities, the financial outlook remains challenging with the latest medium term financial plan identifying savings of £26.5m in 2017/18, with further savings of £31.9m in 2018/19 and £21.7m in 2019/20 and £22m in 2020/21. For 2017/18 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years.</p>

## Key findings continued

Significant risk	Work to address	Findings and conclusions
<b>Medium Term Financial Plan continued</b>	<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>We have reviewed the budget reports and the information presented to members, particularly in relation to the rationale for holding balances and reserves. We note the improvements that have been made in this area.</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>
<b>Ofsted inspection of children's services</b> <p>Ofsted issued a report on the Council's children's services in January 2017 which rated these as 'inadequate'. Until such time as Ofsted has confirmed that adequate arrangements are in place this presents a significant risk to the Council's arrangements</p>	<p>We have reviewed the Council's response to the report and discussed progress on the plan with officers.</p>	<p>The Council have responded positively to the Ofsted report and has a detailed improvement plan in place which has been submitted to Ofsted. The high level eight point plan is supported by detailed work streams, and is being monitored by the Children's Social Care Service Improvement Board. This board is made up of a combination of both officers and elected members to oversee the delivery of the improvement plan and ensure progress is made.</p> <p>Officers were aware of the issues identified in the Ofsted report while producing the 2017/18 budget and medium term financial plan, and therefore ensured that additional resources were put in place to be able to meet the needs identified in the improvement plan. This resulted in an additional £2.5m of revenue funding, and a further £1m of capital investment for social care systems and information technology as part of the transformation project.</p> <p>Officers have looked to other authorities for best practice and advice in how best to turn the service around. They have welcomed the appointment of Trevor Doughty who is Director of Children's Services for Cornwall County Council, as the commissioner for Children's Services.</p> <p>At the time of forming a conclusion on the arrangements in place the improvement plan is still in its early stages and therefore there is limited evidence of the impact of the plan. We have therefore concluded that the weaknesses in the arrangements identified by Ofsted during 2016/17 remain in place up until year end and are proposing an except for VFM conclusion.</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.

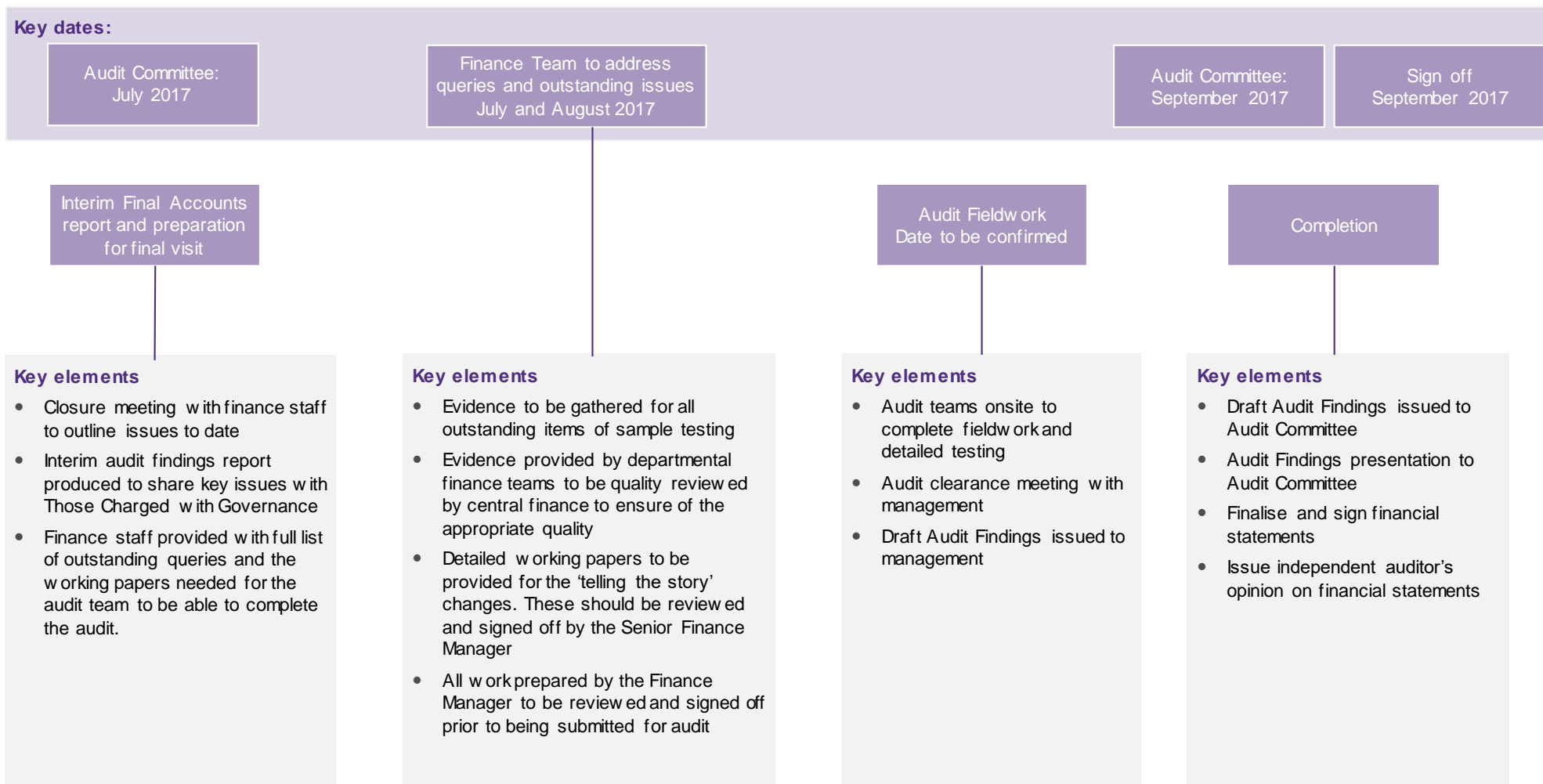
### **Significant matters discussed with management**

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.

# Appendix A – The Way Forward





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