

# The Audit Findings for Worcestershire County Council - Updated report

---

**Year ended 31 March 2017**

26 September 2017

**John Gregory**

Director

T 0121 232 5333

E [john.Gregory@uk.gt.com](mailto:john.Gregory@uk.gt.com)

**Helen Lillington**

Manager

T 0121 232 5312

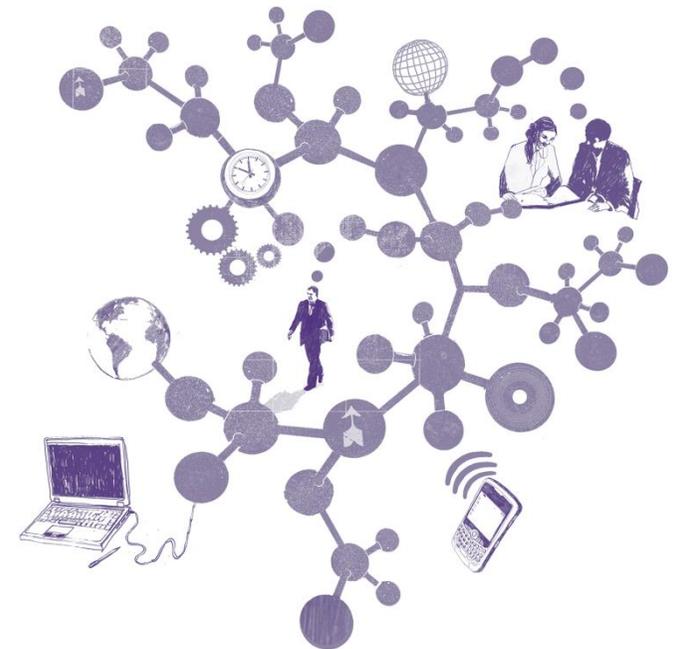
E [helen.m.Lillington@uk.gt.com](mailto:helen.m.Lillington@uk.gt.com)

**Kathryn Kenderdine**

In Charge auditor

T 0121 232 5316

E [kathryn.a.kenderdine@uk.gt.com](mailto:kathryn.a.kenderdine@uk.gt.com)



Worcestershire County Council  
County Hall  
Spetchley  
Worcester  
WR5 2NP

26th September 2017

Grant Thornton UK LLP  
Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

T +44 (0)121 212 4000  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

Dear Members of the Audit and Governance Committee

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

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Worcestershire County Council, the Audit and Governance Committee), to oversee the financial reporting process, 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 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.

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**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTL). GTL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see [grant-thornton.co.uk](http://grant-thornton.co.uk) for further details.

---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	[ 4 ]
2. Audit findings	[ 9 ]
3. Fees, non-audit services and independence	[31]
4. Communication of audit matters	[34]

## **Appendices**

- A Action plan
- B Audit opinion

---

# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Fees, non audit services and independence**

**04. 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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act'). This Audit Findings Report (AFR) updates and replaces our Interim AFR reported to the Audit and Governance Committee on 21 July 2017.

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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 carrying out our audit, we have not had to vary from the overall planned approach which we communicated to you in our Audit Plan dated 24 March 2017. In applying this approach, however, we have encountered a range of issues which have delayed completion of the audit and have resulted in us spending considerably more time on it than planned. We will therefore be seeking agreement from the Chief Financial Officer and from PSAA Limited to charge an additional audit fee.

We reported our concerns to the July meeting of the Audit and Governance Committee and outlined the plan and timetable which we had agreed with officers for completion of the audit. This interim report also summarised our findings in respect of our value-for-money work.

At the time of writing this updated report, there remain some issues where we have been unable to reach a firm conclusion. In agreement with officers these will be the subject of an addendum to this report, which will be made available to members as soon as the issues are resolved. Members should note that for the areas most likely to have a material impact on the accounts, officers have recently provided us with further explanations and evidence which we are currently evaluating, and we are therefore hopeful that further significant changes to the accounts will not be required.

An outline of the key areas where we are yet to reach a conclusion is as follows;

- Property, Plant and Equipment revaluations – see comments in relation to the significant risk on page 13. Officers have recently provided us with further evidence and explanations which we are currently evaluating.
- Grant and Contribution Income note 1.9.1. Initial testing identified that this note was incorrectly stated, with the £8.1m identified as Transport actually relating to a number of non transport related grants. As a result it has been necessary to extend our sampling in this area, and we are currently working with officers to ensure we have the required evidence on the revised note.
- Cut off testing of income. Officers have had significant difficulty in obtaining the necessary reporting from the new general ledger system in order for us to complete the testing required on the cut off assertion. The report was only available at the end of the first week of the additional final accounts audit.
- Employee Remuneration, specifically exit packages – see comments in relation to the risk on page 14.
- Energy from Waste PFI – see comments in relation to the significant risk on page 12. Again, officers have recently provided us with further evidence and explanations which we are currently evaluating.
- ‘Telling the Story’ changes – see comments in relation to the significant risk on page 12.

In addition to these outstanding issues, we will also need to finalise our procedures in the following areas;

- Financial instruments
- review of the LGPS pension disclosures
- 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
- Whole of Government Accounts

## **Key audit and financial reporting issues**

### **Financial statements opinion**

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

- As reported in our interim AFR, the finance team have found it difficult to produce a set of financial statements in line with the agreed timetable, or to provide appropriate working papers and timely responses to queries. The agreed draft accounts were provided a week later than the agreed timetable. These omitted both the narrative statement and annual governance statement. A high level review of these accounts raised over 60 different queries for the finance team to resolve. Over half of these queries have led to an amendment being needed.
- The agreed ‘recovery’ audit visit during August did not go as well as we had hoped and we have not been able to complete our audit work in the timeframe anticipated. While working papers were provided, there were key examples where the information did not address the issue raised, or where the evidence provided suggested further errors in the accounts.
- A number of the areas highlighted in our interim report remain unresolved. However senior staff within the finance department have made the resolution of these issues a priority and we continue to work together to ensure we have sufficient assurance to be able to deliver an audit opinion.

- 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. The experience from this year's audit, in particular the difficulties in obtaining the necessary reports from the new financial system, suggest that there are a number of challenges that the finance team will need to overcome if they are going to be able to achieve the new statutory deadline next year.

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 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 and our initial review of the revised AGS, we are satisfied that following the most recent revisions they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## **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**

The only control weaknesses 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**

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.

The details of our work on Value for Money were reported in detail as part of our interim report on the 21 July 2017.

Since we completed our work on this area, we are aware that a revised Direction was issued to the Council on 19 September 2017 which requires the Council to develop an options analysis for alternative models for provision of children's services. This follows publication of a report by the Government-appointed Commissioner, which confirmed that there are deep-seated issues within children's services in the County.

### **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 extensively 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**

The delays and difficulties during this year's audit have placed the finance team and other key staff under considerable pressure at times. We would like to take this opportunity to record our appreciation for their efforts, and we look forward to working with them to ensure that this year's problems are not repeated.

**Grant Thornton UK LLP**  
September 2017

---

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Fee, non audit services and independence

04. Communication of audit matters

# 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 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
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

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)

# Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions Under ISA (UK&amp;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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>The following work has been completed</p> <ul style="list-style-type: none"> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<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 controls and testing of journal entries has not identified any significant issues.</p> <p>It was however noted, that there were a significant number of journals identified with no description posted against them. Our testing did not identify any errors, however it is good practice for journals to be documented with an appropriate description.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# 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
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> <li>We have documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our interim AFR identified that officers needed to undertake additional work in this area. This work as completed and many aspects of the changes have now been agreed, there remains a number of unresolved queries at the time of writing, none of which appear to be material in nature, and we will continue to work with the Council's officers to resolve.</p>
<p><b>Energy for Waste PFI Accounting Entries</b></p> <p>The Energy from Waste PFI is due to become operational in February 2017 which will result in the asset being brought onto the Council's balance sheet.</p>	<ul style="list-style-type: none"> <li>We have reviewed the accounting transactions in respect of the Energy for Waste PFI to ensure that they are in line with guidance.</li> <li>We have considered the justification for the value of the property, plant and equipment balances in respect of the EFW scheme which the Council has included in its balance sheet.</li> </ul>	<p>Our interim AFR identified that there were queries in relation to the accounting model used and the costs that have been recorded for the new plant and how this valuation demonstrates material compliance with the Code. Following the intervention of senior finance officers this issue is progressing and we have recently been provided with additional documentation and explanations which we are assessing.</p>

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Property, plant and equipment</b> The Asset register is currently held on a spreadsheet. As part of the introduction of the new financial system this information will be recorded in a new fixed asset module. Part of this transfer of data will involve a data cleanse exercise, which may impact on the year end position for 2016/17.</p>	<ul style="list-style-type: none"> <li>Discussed with the Council the planned work to identify and document the controls in place over the exercise.</li> <li>Reviewed the work completed to ensure that the assets transferred to the new general ledger is accurate.</li> <li>Considered the impact of changes to the asset register on the 2016/17 financial statements.</li> <li>Tested any material changes to the 2016/17 accounts as a result of this exercise.</li> </ul>	<p>We highlighted in our interim AFR that a number of issues remained to be resolved in relation to PPE. The most significant issue that is left to resolve is the supporting evidence behind management's assertion that the values of assets that have not been revalued in year are not materially different from their fair value, given that the valuer has concluded that the values of some of the key assets which have been revalued have increased materially. We have recently been provided with further evidence and explanations from both Council officer and the valuer, and are currently evaluating these.</p> <p>In addition we have noted that the format of the note 2.01.1 is not in accordance with the Code in the way assets under construction are shown as effectively negative additions. We have discussed this in previous years with officers who maintain that this disclosure is appropriate and fits better with how they record the information. Our view is that this remains a confusing presentation for the reader of the accounts which lacks the ability for comparison with other similar authorities. Consideration should be given to aligning this note with the examples provided in the Code.</p>
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>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.</li> <li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> <li>Performed procedures to confirm the reasonableness of the actuarial assumptions made.</li> </ul>	<p>We have completed our review of the controls in place by management over the pension fund net liability and also the review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. In addition we have gained an understanding of the basis on which the IAS 19 valuation has been carried out.</p> <p>We are yet to complete our work on the consistency of the pension fund net liability disclosures in the notes to the financial statements with the actuarial report from your actuary, or confirm the reasonableness of the actuarial assumptions made.</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 accruals are understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Reviewed the reconciliation of the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger</li> <li>• Completed a trend analysis of the monthly payroll data and investigated significant variances</li> <li>• Tested amounts paid to individual employees on a sample basis.</li> </ul>	<p>We have substantially completed our work in this area, with the exception of testing of note 1.08 on termination and exit packages. Initial testing of this note identified a number of potential errors, and there were substantial difficulties encountered in terms of obtaining the information requested by audit. Given the sensitive nature of this note we have requested that officers perform a 100% review of the information. This has recently been completed, with a further revision to the note. The audit work on the revised note has not yet been completed.</p>
Operating expenses	Year end creditors and accruals are 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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Reviewed for unrecorded liabilities by reviewing payments after the year end.</li> <li>• Reviewed the Council's accruals process and tested accordingly (including goods receipted).</li> </ul>	<p>We have substantially completed our work in this area, with the exception of testing of creditor balances. We identified a sample of 17 creditor balances to test, of which 7 are considered to be errors. These can be classified as follows;</p> <ul style="list-style-type: none"> <li>• 3 errors relate to s106 and s278 agreements. These agreements have been incorrectly treated as short term creditors, as there is no likely requirement to pay them back within the next 12 months. These should be classified as capital grants received in advance, within the long term liabilities section of the balance sheet. Officers accept that the current accounting treatment is incorrect but are reluctant to make the changes in the 2016/17 accounts, and we are satisfied that this misclassification is not material to the reader of the accounts.</li> </ul>

# 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
Operating expenses continued	See above	See above	<ul style="list-style-type: none"> <li>1 item selected within the sample was for £3m due to Hereford and Worcester Fire and Rescue Authority. The supporting evidence demonstrates that this was part of £11.9m that the County Council had invested at 31 March 2017 on behalf of the Fire Authority. This amount, which is not individually material, was included within the totals on the balance sheet for investments and cash and cash equivalents, with a matching creditor in respect of the repayment which would fall due at some stage to the Fire Authority. In our view, the most appropriate accounting treatment would be to exclude the £11.9m from the Council's balance sheet completely, as it belongs to a third party and the Council is in effect acting as an agent. However, we also recognise the practical difficulties of excluding it from the Council's accounts in that the split between asset categories would need to be notional, and the fact that it is invested in the Council name means that the Council does have an asset in legal form if not in substance. We are not therefore treating this issue as an uncorrected misstatement.</li> <li>The remaining 3 errors total £2,632 and when evaluated against the remainder of the population would not suggest a material error.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

## **Going concern**

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 financial statements.

# Significant matters discussed with management

	Significant matter	Commentary
1.	Working papers	<p>The lateness of the draft accounts and quality of the working papers has been a general theme throughout the audit and continues to be a key area of discussion as we try and complete our audit work. There have been numerous examples, where responses to audit queries have been slow, or in some cases inaccurate. This has led to increased testing in some areas and delayed the identification and quantification of errors, putting increased pressure on senior finance staff and audit during the final stages of September. In many instances officers have presented evidence for audit, without demonstrating how they have judged this to be in line with accepted practice.</p> <p>There have been clear changes to the way the finance team have organised the accounts production process and dealt with requests from auditors this year. The team has lacked consistency and knowledge and have had limited oversight by more senior members of the team as they have been dealing with the significant issues presented by the new financial system. Consideration needs to be given to whether there is sufficient, appropriate, capacity in the finance team to deal with the ongoing workload presented by the new financial system and to enable a smooth close down of the financial accounts for the statutory deadline of the 31<sup>st</sup> July next year. Further work is needed with departments outside of finance to ensure that the accounts production process and audit are given the priority they need.</p> <p>We note that officers have made a commitment to produce a full lessons learned paper for the Audit and Governance Committee in December and consider the plan for next years audit process. We will continue to support members of the finance team and share good practice to help them achieve the necessary improvements.</p>
2.	New Financial System	<p>As highlighted above, the implementation of the new finance system has created an impact on the resourcing of the finance team. In addition, we requested information from the new finance system to be able to gain assurance over the 'cut off' of both income and expenditure at year end. Production of this information has proved difficult, with limited report writing capacity for the new system. While we have worked with officers to obtain the information that we have needed, this has proved time consuming. It is clear that there is a lot of work to do for officers to be assured that they will have the reports they need to be able to appropriately close down the accounts next year, to the required time scale. We are keen to work with officers during this process as this clearly presents a significant risk to the audit next year.</p>
3.	Annual Governance Statement (AGS)	<p>Our interim AFR highlighted that we had some concerns over the consistency of the AGS with our knowledge of the authority. We noted that the draft statement did not specifically identify any significant governance issues, despite assurance statements provided by senior officers of the authority suggesting that there were areas where further work was needed. We shared examples of other AGS's with officers and the statement has now been revised in a way that complies more closely with the Code and gives appropriate prominence to the issues facing the authority. These discussions have highlighted that the process for compiling the AGS within Worcestershire needs to change in future years and draw on practices that are happening elsewhere. In particular this needs to focus on what happens to the officers assurance statements, how are they evaluated and by who. There needs to be clear evidence that the issues raised in these statements are considered by appropriate management of the authority and that the decision as to what to include in the AGS is not limited to finance staff.</p>
4.	Issues raised at interim audit	<p>As part of our plan to achieve delivery of the audit by the end of July, we agreed with the finance team that we would review a number of key issues during our interim audits before the financial year-end, thus reducing pressure for both sides during the final accounts visit. We reviewed these issues and in many cases identified concerns which we left with officers to resolve before the accounts were compiled. In the event, little progress was made in resolving these and this has been the cause of many of the more recent delays. Key areas would be around accounting for the Energy for Waste PFI, Telling the Story changes and the valuation of PPE, which were included as significant risks in our audit plan reported to members previously and were included within our interim AFR. We have discussed this issue with the Chief Financial Officer and made clear that this is one major issue which needs to be addressed to ensure a more successful 17/18 audit.</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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The Council's policy on revenue recognition is included in note 5.2 of the Statement of Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is consistent with the relevant accounting framework and all material income streams are reflected in the policy.</li> <li>Minimal judgement is involved.</li> <li>The accounting policy is properly disclosed.</li> <li>The finance team have expanded the policy from previous years, however in expanding the policy, they had excluded the de-minimus policy in relation to accruals of £5,000 and also a policy in relation to the accounting for the better care fund, which is a significant item of expenditure for the County Council.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Amber</p> <p style="text-align: center;">Accounting policy appropriate but scope for improved disclosure</p>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include</p> <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>Revaluations</li> <li>Impairments</li> <li>PPE Valuations</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> </ul>	<p>The Council's policy is appropriate and consistent with the Local Government code of Accounting Practice.</p> <ul style="list-style-type: none"> <li>Reliance is placed on experts where appropriate</li> <li>Accounting policies are properly disclosed</li> <li>We have reviewed the accounting models the Council have used to calculate the entries required in the accounts for the current PFI schemes in operation with the exception of the Waste PFI. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. In all cases there are differences, however these are below our level of materiality and therefore we consider that no further action is required. We are currently completing our work in relation to the Waste PFI and will update members once this has been completed.</li> <li>We have reviewed the estimates and judgements used in assessing the pension fund liability as a significant risk and our comments are included on page 12 above.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Amber</p> <p style="text-align: center;">Accounting policy appropriate but scope for improved disclosure</p>

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p><b>Going concern</b></p>	<p>The Chief Financial Officer, 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.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Green</p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>
<p><b>Other accounting policies</b></p>		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and generally consistent with previous years.</p> <p>Our testing identified that the accounting policy for vehicle depreciation was incorrectly stated. The policy should read that vehicles are depreciated over a lifetime of between 3 and 12 years.</p> <p>Note 1.10 in relation to related parties, while complying with the requirements of the code, the format is confusing, including a mixture of related parties and non related parties where officers feel an explanation of the interests is necessary. Consideration should be given to this note next year to improve clarity. We have also noted that officers have not been reminded of their responsibilities in respect of conflicts of interest and declarations required for the financial statement disclosures.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Amber</p> <p style="text-align: center;">Accounting policy appropriate but scope for improved disclosure</p>

**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"> <li>We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	Matters in relation to related parties	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	Written representations	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers.</li> </ul>
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> <li>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.</li> </ul>
6.	Disclosures	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements, however there were numerous amendments required to the disclosures to ensure compliance with the Code. These are contained within the table on page 25 below.</li> </ul>

## Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas</li> <li>• 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</li> <li>• 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.</li> </ul> <p>However we have identified key changes to the draft AGS produced by officers so that it presents a more consistent picture of the Council. These are explained more fully on page 16.</p>
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 of £350m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> <li>• Note that work is not yet completed as we are awaiting a final agreed set of financial statements. We will complete the work as soon as practicable after the conclusion of the opinion audit.</li> </ul>

## 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 overall review described above considered the issues raised in the prior year and where a weakness remained or had not been addressed an updated recommendation was included in the action plan.

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

"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)

## Adjusted misstatements

A number of adjustments to the draft accounts are likely as a result of the audit work that is yet to conclude. These areas have been previously outlined in the report. We will include a full table of adjustments to members once the audit work has been completed and agreed with officers.

## 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	<p>Note 1.02 Adjustments between Accounting Basis and Funding Basis under Regulation. Officers have provided audit with a revised note. The revised note has amended the 'capital grants and contributions unapplied credited to the CI&amp;E Statement' line. The revised amount no longer agrees to that as presented in the grants note 1.09.2. There is an unexplained difference of £1.3m, which we have treated as an unadjusted misstatement.</p>	Officers do not consider this difference to be material
2	<p>Note 4.01 Usable Reserves. Officers have amended the draft note provided at the start of the audit. The capital grants unapplied now has a closing balance of £52.4m. This amendment figure is different to the grants note 1.09.2 by £1.1m. This is an unexplained difference, which we have treated as an unadjusted misstatement.</p>	Officers do not consider this difference to be material
3	<p>Creditors – as explained on p14, the short-term creditors balance in the draft accounts includes £15.4m in respect of s106 and s278 contributions, which should be recorded as capital grants and contributions received in advance, within the long-term liabilities section of the balance sheet. This is the treatment adopted by the majority of councils, although we acknowledge that there is some inconsistency on this arising from confusion at the time the current accounting arrangements were implemented.</p>	Officers do not consider the misclassification to be material and propose making the change within the 2017/18 accounts.

## Impact of uncorrected misstatements in the prior year

	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 net effect of £836k, giving a final value of £2m.	The adjustment was not made to the accounts on the basis that it was immaterial, therefore the comparative for Assets Held for Sale remain misstated by an immaterial amount. The Assets Held for Sale balance has reduced in 2016/17 and is presented at £1.5m which remains below our materiality threshold.

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have not been previously reported. Officers have agreed to amend for these in the final set of financial statements.

Area of accounts	Detail	Error of disclosure issue	Impact on the financial statements
1 Note 1.02 Adjustments between Accounting Basis and Finding Basis under Regulation	<p>A revised note has been produced by officers. The proposed changes are as follows;</p> <ul style="list-style-type: none"> <li>• Capital grants and contributions applied: General Fund balance originally £60.7m, revised £62.0m</li> <li>• Capital grants unapplied originally £1.3m, revised £0m</li> <li>• Capital grants and contribution unapplied credited to the CI&amp;E statement: General Fund Balance originally £0m, revised £0.2m</li> <li>• Capital grants and contributions unapplied credited to the CI&amp;E Statement: Capital Grants unapplied originally £51.2m, revised should be £52.4m</li> <li>• Transfers to/(from) earmarked reserves: General Fund Balance originally £9.3m, revised £10.4m</li> <li>• Transfers to/(from) earmarked reserves: Capital grants unapplied originally £1.1m, revised £0m</li> </ul>	Disclosure	Note 1.02 to be amended
2 Note 1.01 Prior Period Adjustment	<p>The Telling the Story changes have required a restatement of the CI&amp;E statement. As a result a prior period adjustments is required. Given this is such a fundamental change to the presentation of the financial statements a greater degree of narrative disclosure is required in the prior period adjustment note.</p>	Disclosure	Note 1.01 to be amended

## Misclassifications and disclosure changes continued

Area of accounts	Detail	Error of disclosure issue	Impact on the financial statements
3 Note 1.01b Adjustments between funding and accounting basis	The net change for pensions adjustments of £10.9m has all been allocated against the Commercial & Change, Finance & Chief Executive directorate. This is inconsistent with prior years and not in accordance with the Code.	Disclosure	Note 1.01b to be amended
4 Note 1.07.02 Senior employees' remuneration	The draft note includes the full year costs of the interim directors that provided interim cover. This is not in accordance with the Code guidance notes which state that the actual costs should be used in the note.	Disclosure	Note 1.07.02 to be amended
5 Note 2.05.3 Fair value of assets and liabilities	The note has a heading for Market risk – price risk. This part of the note talks about level 3 investments, and the accounting policies also talk about the different levels of investments held by the Council. The note lacks the necessary clarity on the actual investments held and how they should be classified and valued.	Disclosure	Note 2.05.3 to be amended
6 Note 6 Future Accounting Standards	The draft note provided did not consider all of the future accounting standards that could impact on the financial statements. We discussed with officers the guidance that was in the LAPP Bulletin in relation to this disclosure which officers have now reviewed. Additional disclosures are to be made in relation to both IFRS 15 and IFRS 9.	Disclosure	Note 6 to be amended
7 Note 9 Events after the Balance sheet date	The draft financial statements included a disclosure in relation to schools that have converted to academy status since the end of the financial reporting period, however this was reported as a nil impact on the balance sheet. Officers have sub sequentially provided evidence that this should be amended to an impact of £2.9m	Disclosure	Note 9 to be amended

## Misclassifications and disclosure changes reported in the interim AFR

The table below provides details of misclassification and disclosure changes reported during the interim AFR and updates the final position.

Area of accounts	Detail	Error or disclosure issue	Impact on the financial statements
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 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 previously discussed. This error will be considered alongside the further work that officers are undertaking in this area. This work is not yet concluded.

## Misclassifications and disclosure changes reported in the interim AFR continued

Area of accounts	Detail	Error or disclosure issue	Impact on the financial statements
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

## Misclassifications and disclosure changes reported in the interim AFR continued

	Area of accounts	Detail	Error or disclosure issue	Impact on the financial statements
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, including that child care vouchers had been omitted from the calculations.	Error	Notes 1.07.1 and 1.07.2 to be amended

---

## Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

**03. Fees, non audit services and independence**

04. Communication of audit matters

We confirm below our fees charged for the audit.

### Fees

	Proposed fee £	Final fee £
Council audit	95,446	TBC*
<b>Total audit fees (excluding VAT)</b>	<b>95,466</b>	<b>TBC*</b>

\* The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. Our interim AFR highlighted the particular difficulties that the audit team have encountered during the audit with regards to late or insufficient information being provided. This has caused a delay and additional time to be incurred on the audit, particularly at more senior grade of audit staff. Work is still on-going in key areas, and therefore an accurate assessment of the overrun cannot be made at this date. We will agree the proposed fee variation with the Chief Financial Officer and submit for approval via PSAA before reporting the final fee to the Council in our Annual Audit Letter.

### 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'.

### 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

### Fees for other services

Service	Fees £
<b>Audit related services*</b>	
• SFA compliance	<b>£4,000</b>
<b>Non-audit services</b>	
• CFO Insights (Full cost for 2 year subscription)	<b>£9,995</b>

\* In previous years we have completed work on the Teachers Pension Claim as an audit related service. We are currently in discussion with officers to determine if this work is required for the current financial year and therefore this is not disclosed above.

# Independence and non-audit services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to Worcestershire County Council	Fees	Threat?	Safeguard
Audit related services	SFA compliance certification (2016/17)	£4,000	<ul style="list-style-type: none"> <li>Self interest</li> </ul>	<p>This is a recurring fee and therefore a small self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£95,446) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
Non-audit services	CFO insights – Online tool for Council's aspiring to improve the financial performance of their Local Authority (Full cost of 2 year subscription)	£9,995	<ul style="list-style-type: none"> <li>Self interest</li> </ul>	<p>£9,995 for a two year subscription to CFO insights was paid by the Council in 2016/17 and this was reported in our 2016/17 audit plan.</p> <p>This is a recurring fee and therefore a small self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£95,446) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to non-audit related services for which there is a fixed fee and no contingent element to the fee.</p> <p>These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.</p>
	<b>TOTAL</b>	£13,995		

---

## Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Communication of audit matters

# Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

---

# Appendices

**A. Action Plan**

**B. Audit Opinion**

## A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	All officers that post journals should be reminded of the need to include a description of the journal.	Low	Agreed. Finance staff will be reminded of the need to evidence sufficient information to support the reasons for all journals in the financial ledger.	This will be implemented immediately Senior Finance Manager
2	The accounts production process should be reviewed for next year. The review should focus on how roles and responsibilities are allocated and how progress will be monitored and reported. Sufficient resources should be included in the plan to include quality assurance, and detailed training to those outside of finance as to their responsibilities.	High	Agreed. A report will be presented to the December Audit and Governance Committee to endorse improvements.	December 2017 Senior Finance Manager
3	The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a timely manner.	High	Agreed. The County Council continues to work with its provider of the financial system, Liberata, to enhance reporting and improve bespoke report writing functionality.	31/3/18 Senior Finance Manager
4	It is recommended that the process for compiling the AGS is reviewed, drawing on practices from elsewhere. In particular this needs to focus on the use which is made of the officers' assurance statements, how are they evaluated and by whom. There needs to be clear evidence that the issues are considered by appropriate management of the authority and that the decision is not limited to finance staff.	Medium	Agreed	31/3/18 Senior Finance Manager
5	Consideration should be given to the note on related parties next year to improve clarity. We have also noted that officers have not been reminded of their responsibilities in respect of conflicts of interest and declarations required for the financial statement disclosures.	Medium	This will be considered as part of the plan to produce the annual financial statement next financial year.	31/3/18 Senior Finance Manager
6	In addition we have noted that the format of the note 2.01.1 is not in accordance with the Code in the way assets under construction are shown as effectively negative additions. Consideration should be given to aligning this note with the examples provided in the Code.	Medium	This will be considered as part of the plan to produce the annual financial statements next year.	31/3/18 Senior Finance Manager
7	The CFO should ensure that sufficient staff resource and expertise is available to resolve issues raised during the interim audit visit before the financial statements are produced.	High	Agreed. This will be addressed in advance of this work requirement.	31/3/18 Senior Finance Manager

### Controls

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

# B: Audit opinion

**We anticipate we will provide the Council with a modified 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 2017 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 2016/17.

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

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Report 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared 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 Framework (2016)' published by CIPFA and SOLACE; or

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

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

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and auditor**

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

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 for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

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

**Basis for qualified conclusion**

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

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

The report concluded that:

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

At the date of our opinion, the Authority has submitted a service improvement plan which is aimed at addressing the issues highlighted in the report, however there was no clear evidence of improvement in the arrangements during 2016/17.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

**Qualified 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 2016, except for the effects of the matter described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

***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 2017. 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 of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

xx September 2017



© 2017 Grant Thornton UK LLP. All rights reserved.

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

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

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**