

Audit Findings

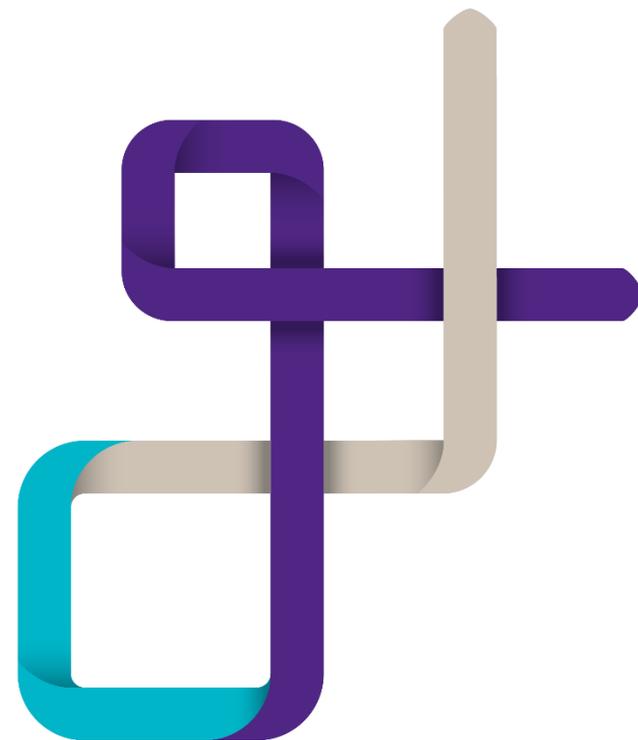
Year ending 31 March 2018

Worcestershire County Council

26 July 2018

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Worcestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was carried out on site from May to July. Our findings are summarised on pages 4 to 14. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix E. Due to the delays in receiving reports from the financial system and the standard of the working papers produced to support the transaction testing there remain a significant number of areas where the testing has not yet been completed. These include:</p> <ul style="list-style-type: none"> Journal transactions; Operating expenses, PPE depreciation and revaluation, Debtors, Financial instruments, and Grants and contributions. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Worcestershire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to Children's Services and Commissioning.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 20.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the audit yet as we are yet to complete the work required for Whole of Government Accounts and the certification of the pension fund annual report. Further details are noted on page 14.</p>

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- Journal transactions,
- Operating expenses,
- PPE depreciation and revaluation,
- Debtors,
- Reconciliation of NI and superannuation costs, plus the review of the pension transactions from the work undertaken by the actuary
- Financial instruments, including debt, cash and investments,
- Grants and contributions.
- Review of the final set of financial statements, including amendments and adjusting entries to the financial system, and
- Receipt of management representation letter.

Our approach to materiality

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

Our materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Worcestershire County Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	15.232m	We have used a percentage of total expenditure in year as an appropriate benchmark given the Council's activities are driven by public demand for services and the level of expenditure is based on the level of activity.
Performance materiality	8.378m	We have considered the volume of errors identified in the 2016/17 accounts, the change in s151 officer during the year, and the introduction of the new finance system in year. As a result a lower level of performance materiality has been set when compared to prior years.
Trivial matters	0.761m	We have continued to set this as a percentage of materiality, and consider this level as appropriate in determining the errors to be reported to the Audit and Governance Committee.
Materiality for specific transactions, balances or disclosures. For Worcestershire County Council the only balance is in relation to senior officer remuneration	0.1m	This note is an element of the accounts which is of genuine concern to the user of the accounts, with the salaries of senior officers sometimes the subject of adverse publicity.

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

The Chief Financial Officer as s151 officer has a reasonable expectation that the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- no material uncertainties related to events or conditions that cast significant doubt upon the Council's ability to continue as a going concern exist that require disclosure.

Work performed

We have reviewed the:

- Written assessment provided by management, including the supporting documentation provided, and
- The cash flow forecast which covers 12 months from the date of approval of the financial statements.

Concluding comments

Auditor commentary

Chapter 6 Section 3.4 of the CIPFA Code on the “*Presentation of Financial Statements for Pension Funds*” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2017/18 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future”.

Management have carried out a formal written assessment in respect of the going concern of the Council and have identified:

- The Council produce financial plans and budgets for members to approve, which continue into the medium term,
- The plans include an assessment of the level of balances and reserves held by the Council, with the Chief Financial Officer considers to be sufficient,
- The Council do monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval to the financial statements. This shows the Council have appropriate cash balances.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Auditor commentary

Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.

Auditor commentary

We propose to issue an unmodified opinion for 2017/18

Significant audit risks

Risks identified in our Audit Plan

1

The revenue cycle includes fraudulent transaction

Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Commentary

Auditor commentary

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

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

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

Auditor commentary

- As part of our work in this area we have
 - gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness,
 - Evaluated the rationale for changes in accounting policies,
 - reviewed journal entries and performed testing on large and unusual entries,
 - reviewed unusual significant transactions; and
 - reviewed significant related party transactions outside the normal course of business

One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to this test, is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It has been necessary to consider a number of different ways to achieve this, with a solution found in mid July. As a result the audit team are yet to conclude their testing in this area, and members will be provided with a verbal update at the meeting.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

As part of our work in the area we have;

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work,
- reviewed the competence, expertise and objectivity of any management experts used,
- reviewed the basis on which the valuation was carried out and challenged key assumptions,
- reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding,
- tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

We are yet to complete our work in this area, with the key area that is outstanding in relation to testing of the revaluations made in year to the asset register.

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

As part of our work in this area we have;

- identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement,
 - reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation,
 - gained 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; and
 - reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.
- We are yet to complete our work in this area. The key work outstanding is in relation to how the Council have assured itself that the assumptions and methods used by the actuary are appropriate.

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p data-bbox="47 271 82 307">5</p> <p data-bbox="120 268 569 292">New Financial System Implementation</p> <p data-bbox="120 297 569 464">The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p data-bbox="120 496 569 578">We identified the implementation of the new financial system as a risk requiring special audit consideration.</p>	<p data-bbox="569 268 818 292">Auditor commentary</p> <p data-bbox="569 307 1004 331">As part of our work in this area we have;</p> <ul data-bbox="569 345 1995 606" style="list-style-type: none"> • reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, • completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, • reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and • reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. <p data-bbox="569 616 1995 731">The implementation of the new financial system has presented the finance team with significant challenges in terms of preparation of the financial statements. There have been problems experienced with the reporting of the journal populations, and there were delays in the completion the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p> <p data-bbox="569 745 1995 825">The area that has had the biggest impact on the impact on the audit is the reporting functions within the finance system. Officers have found it difficult to produce detailed transactions listings for balances within the accounts, which in a number of instances has resulted in the audit team having to test more transactions. Some examples of the issues encountered are included below;</p> <ul data-bbox="569 839 1995 1363" style="list-style-type: none"> • The balance on the Accounts Payable control account included within the creditors note is £16,507,945. A report was requested which broke this balance down into the individual creditors at year end. Officers were unable to run a report which showed the individual balances at year end. As a result, a 'work around' was considered which shows the balances outstanding at year end with suppliers. This totalled £16,506,805. a difference of £1,139, which is trivial for the purpose of the audit. While the difference between the reports was trivial, we have had to undertake sample testing at a supplier level, which has led to the need to test more transactions than in prior years • A breakdown of the Accounts Receivable control account was provided, which totalled £16,358,244. The total value of the code that was included within the financial statements was £16,638,685. The population report provided to audit was £280,441 less than the value included within the financial statements • PPE additions. There was a difference of £106,282 between the value included within the financial statements and the breakdown provided for audit to be able to test transactions. The value in the financial statements was less than the breakdown provided. • Officers have provided us with payroll data broken down by month to enable a detailed substantive analytical review to be undertaken. The payroll reconciliation that has been undertaken is £2.5m more that the amount that has been included within the payroll data for the substantive analytical review. This difference is unexplained. • In many instances the populations we have sampled from have included a large number of journal entries, in many cases relating specifically to the implementation of the new financial system. This has made the audit work more complex and time consuming than in previous years.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

7

Employee remuneration

Payroll expenditure represents a significant percentage (23%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness,
- documented our understanding of processes and key controls over the transaction cycle,
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding,
- obtained the year-end payroll reconciliation and ensured the amount in the accounts reconciles to the ledger. Significant adjusting items have been reviewed; and
- agreed payroll related accruals to supporting documents and reviewed estimates for reasonableness.

Our audit work to date has not identified any issues in respect of employee remuneration, however the remains work outstanding on both national insurance payments and expenditure recorded in relation to superannuation.

8

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness,
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls,
- documented the accruals process and controls management have put in place; and
- obtained a listing of non-pay payments in April and undertaken sample testing to ensure that the transaction have been coded to the appropriate year.

At the time of writing this report, we are yet to complete and evaluate the results of the sample testing, and this will be reported verbally to the committee.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
<p>1 Reporting from the Financial System</p>	<p>While there is evidence that members of the finance team have worked hard to mitigate the impact that the new financial system has had on the accounts production process, it has presented significant challenges to both the finance team and the audit team. In previous years, finance officers were able to run detailed transaction listings directly from the ledger. This enabled members of the finance team to have a clear understanding of the transactions in each balance and for the audit team to test transactions in an efficient way. There have been numerous examples where members of the finance team have simply not been able to produce the transaction listings required, or they have taken significantly longer to produce than would be expected, having an impact on both the timeline and the resources needed for the audit. In some instances problems have been experienced as a result of the separation of responsibilities between the Council and Liberata.</p> <p>This was an area of risk that we highlighted as part of the audit plan in March, and we highlighted three specific actions for officers as follows;</p> <ul style="list-style-type: none"> • Finance staff to complete the work on the re-creation of the financial statements, and this will now be included in the audit visit scheduled for March. • Transactions listing to be prepared for all balances as agreed for the March audit visit to enable early testing to be performed. • Finance staff to update audit on progress on the reporting of journals at year end. <p>To follow up on the actions identified we agreed a further interim visit in April. As part of this visit, officers were able to demonstrate that processes were in place for the re-creation of the financial statements from the prior year using the information transferred into E5. Some transactions listings were produced for this visit. Some of the listings initially produced have not been reconciled into the set of financial statements produced at year end, resulting in some early testing undertaken been wasted effort. While we were able to undertake some early testing on journals, discussions with officers still highlighted that gaining assurance over the completeness of the journal population was still proving difficult, and that further work would need to be undertaken to ensure that this was ready for the final accounts visit.</p> <p>We have previously highlighted this is an area that remains outstanding at the time of writing this report. Officers are confident that they now have a solution in place and we will update members verbally during the committee meeting.</p>
<p>2 Working papers</p>	<p>As highlighted in the audit plan, there were some improvements in the working papers provided as part of the interim audit visit, and this has continued to some extent during the final accounts visit. As part of the audit plan we reminded officers that a good working paper enables a suitably experienced individual to be able to re-perform the work and understand. There are still areas that require substantial improvement to enable the audit visit to be completed efficiently and in line with the initial timescales set out. In particular, improved working papers are required when providing evidence for transaction testing. In almost all areas of the transaction testing undertaken, the initial evidence provided to support the transaction was insufficient, or lacked any appropriate explanation of the substance of the transaction. This has resulted in the audit taking longer than anticipated.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council's on revenue recognition is included in note 32.20 of the Statement of Accounts. 	<ul style="list-style-type: none"> The Council's policy is consistent with the relevant accounting framework and all material income streams are reflected in the policy. Minimal judgement is involved. The accounting policy is properly disclosed. 	 Green Accounting policy appropriate and disclosures sufficient
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include; <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Valuation of pension fund net liability 	<p>The Council's policy is appropriate and consistent with the Local Government code of Accounting Practice.</p> <ul style="list-style-type: none"> Reliance is placed on experts where appropriate Accounting policies are properly disclosed We have reviewed the accounting models the Council have used to calculate the entries required in the accounts for the current PFI schemes in operation. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. In all cases there are differences, however these are below our level of materiality and therefore we consider that no further action is required. We are still completing our work on reviewed the estimates and judgements used in assessing the pension fund liability as a significant risk. Members will be updated when this work is completed. 	 Green Accounting policy appropriate and disclosures sufficient
Other critical policies		<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 consistent with previous years.</p>	 Green Accounting policy appropriate and disclosures sufficient

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee 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.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation, with the exception of three. We continue to work with officers to chase these confirmations however we are likely to need to undertake alternative procedures to gain assurances over these balances.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements, however we have made recommendations to assist the Council in achieving greater compliance with the Code.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that work is not yet completed and the planned timescale for the work has been agreed with the Council as week commencing 6th August. This will ensure that the work will be completed by the statutory deadline.
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Worcestershire County Council in our auditor's report, as detailed in Appendix E as we are yet to complete the work required for the Whole of Government Accounts and the certification of the pension fund annual report.</p>

Value for Money

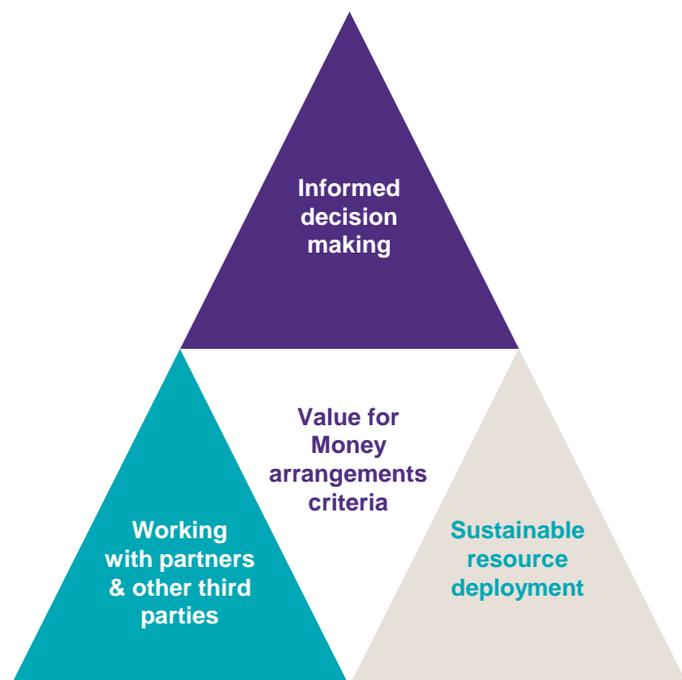
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 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 16 March 2018

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.

Value for Money

Our work

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 continuing arrangements that the Council has put in place to respond to Ofsted and implement the service improvement plan,
- The final outturn position for 2017/18 and progress towards closing the gap in future years,
- The current financial savings plans of the Council, and the delivery of those savings; and
- The arrangements that the Council put in place for procuring and monitoring major contracts.

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 pages 18 to 20.

Overall conclusion

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

- except for the matters we identified in respect of Children's Services and Commissioning, 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.

The text of our proposed report can be found at Appendix E.

In addition to the areas subject to qualification, we have also noted that the Council's financial position has started to erode as a result of limited success in achieving savings plans. While it has been possible to compensate for this through the use of reserves, the Council cannot continue to rely on this as a solution and needs to ensure that it sets and achieves realistic and achievable savings plans going forward. This will inevitably require taking some hard decisions, and this cannot be delayed.

Recommendations for improvement

We discussed findings arising from our work with management and have the following observations on action plans and recommendations for improvement.

We note that the Council has a detailed action plan to respond to the Ofsted report, which continues to be monitored through a variety of mechanisms. Similarly a written response is required following the SEND inspection, which again will be monitored in due course. As part of our VFM work in future years we will continue to review how these action plans are being implemented and how they demonstrate improvements in the overall services provided.

We have discussed our findings in relation to Commissioning with both the s151 officer and Chief Executive and understand that this is an area of focus for both of them in the current year. As part of our VFM work in future years we will review what actions have been taken to review and strengthen the arrangements.

The financial environment faced by the authority remains challenging and as a result we have made the following recommendation;

- Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.

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.

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	Findings	Conclusion
<p>1 Children's Services</p> <ul style="list-style-type: none"> Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017 We will review the Council's response to the report and the progress made, including the plans for an Alternative Delivery Model 	<ul style="list-style-type: none"> The Council have continued to work hard to implement the service improvement plan agreed with Ofsted. During the period under review there have been four separate monitoring visits by Ofsted. The outcome of the most recent was published in May 2018. This report concluded that the local authority is making progress in improving services for children and young people. Essex County Council were appointed as an improvement partner to the Council. Working in partnership they have undertaken a number of diagnostic visits. Their most recent report in February 2018 recognised the hard work that the Council had undertaken and the positive commitment from all levels. It also went on to highlight that there remains a significant number of areas where improvement is needed. On 19 September 2017 the Council were issued with a direction which required them to develop an options analysis for alternative models for provision of children's services. Following a full business case, the Council have approved the implementation of a wholly owned Council Company for the provision of Children's services, with an anticipated go-live date of 1 April 2019. In addition to the Ofsted visits for Children's Services, the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities (SEND). The outcome of the inspection was to require a written statement of action because of significant areas of weakness in the local area's practice. The Council is now working with NHS Worcestershire Clinical Commissioning Groups to produce and submit an action plan to Ofsted that details how they are going to improve the arrangements and address the weaknesses identified. 	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council is making progress in this area there still remains evidence of weaknesses in proper arrangements for Children's Services, and therefore we are proposing an except for VFM conclusion. <p>Management response</p> <ul style="list-style-type: none"> Agreed

Key findings continued

	Significant risk	Findings	Conclusion
2	<p>Financial Sustainability of the Council</p> <ul style="list-style-type: none"> The budget position for the Council in the medium term remains challenging with a funding gap of £23m identified in the next 3 years. This is in addition to savings already planned in 2018/19 of £31.6m We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees. 	<ul style="list-style-type: none"> Historically the Council has a strong track record of meeting its financial targets, and this has continued in 2017/18 with a small surplus being delivered. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. The overspends reported in these services are £6m for adults and £8.3m for children's services and reflect the increased demand for services, but also the complexity of the care required. These overspends have been mitigated by the use of reserves and a number of one off measures, such as reviewing the policy on capitalisation of highways expenditures, reviewing the approach to the Minimum Revenue Provision and using surplus cash to fund a pre-payment on pension contributions in exchange for a discount. The 2017/18 budget included a savings target of £26.5m, £5.2m of which would be met from a planned use of reserves. Taking this into account and then adding unachieved savings from previous years the actual target for the year was £27.9m. The Council achieved savings of £19.1m, which equates to 68% of the target. This is a further deterioration from the savings achieved in prior years, with the Council achieving 74% of its savings target in 2016/17. The Council recognise that savings are becoming more difficult to achieve, and in July 2017 commissioned a review by CIPFA of their financial planning and sustainability. The key finding from the review was to challenge the achievability of savings plans. As a result a central review was undertaken by the finance team of the savings plans agreed and £6.1m of savings plans were effectively written off as unachievable, adding to the level of savings needed in 2018/19 and beyond. The s151 officer has assessed the level of reserves as appropriate as part of the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £84.4m of earmarked reserves. Removing earmarked reserves relating to schools and the public health grant leaves a balance of £64m. While these are set aside for specific purposes, they could be used in the short term to help balance the budget. This £64m equates to almost double the saving target for 2018/19 and is 20% of net expenditure for the Council. The 2018/19 budget includes a savings target of £31.6m. £15.4m of this savings plan related to accounting adjustments and alternative sources of funding and is therefore considered achievable. £9.7m related to existing reforms and the remaining £6.5m are new proposals which remain subject to review and challenge. Like many other similar local authorities, the financial outlook remains challenging. In addition to savings of £31.6m in 2018/19, further savings of £19.6m in 2019/20 and £14m in 2020/21 are needed to achieve a balanced budget. For 2018/19 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years. In recent years the Council has been able to compensate for non-achievement of savings targets through use of reserves and various one off measures. This is not a sustainable position. Difficult decisions will be needed going forward to ensure that the Council is able to meet its objectives and balance the budget. 	<p>Auditor view</p> <ul style="list-style-type: none"> While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. <p>Management response</p> <ul style="list-style-type: none"> Agreed

Key findings continued

	Significant risk	Findings	Conclusion
3	<p>The ability to produce accurate and timely financial reporting</p> <ul style="list-style-type: none"> The Council implemented a new financial system via an outsourced provider in April 2017. The implementation did not go to plan which impacted on the production and completion of the financial statements for 2016/17. We will review the arrangements for budget reporting in 2017/18 and the impact that the implementation of the financial system had on these arrangements. We will also consider the arrangements in place for the timely production of the 2017/18 financial statements. 	<ul style="list-style-type: none"> It has been well documented that the implementation of the new financial system has created challenges across the Council. In particular there have been errors made in both payments to suppliers and in payments to staff. Officers reacted promptly to these issues, and there is no evidence of material loss to the Council as a result of the errors made, however as discussed on previous occasions this has resulted in officers' time being diverted from other key tasks, such as the preparation of the financial statements for 2016/17. We have reviewed the impact that the new financial system has had on the Council's ability to monitor its budget and ensure that a sound control environment remained in place. Overall, at a strategic level, arrangements for monitoring and reporting on budgets were unaffected by the problems with the implementation of the new system. There is clear evidence that on more detailed level, budget holders, particularly schools, struggled with the new system and how best to obtain the information that they had previously relied on. Again this has been recognised by the Council, with alternative arrangements being put in place in the short term, while longer term solutions of further training and support are implemented. A key aspect of the control environment in relation to the new financial system are reconciliations between the ledger and the other sub systems, in particular the bank reconciliation. There were delays in these reconciliations on inception of the new system, with the bank reconciliation for April 2017 not being completed in July 2017. There is evidence that this improved during the year, with key reconciliations being completed for the year end preparation of the financial statements. A further aspect of the control environment is the assurance given by internal audit. As anticipated the implementation of a new financial system was a key focus for the internal audit plan for 2017/18, with eight reviews scheduled. In addition to the work planned by the County Council's internal auditors, work was also scheduled by AuditWest, as the auditors of the Council's contractors, Liberata. As at the end of May, only one final report had been issued by Internal Audit, and there had been no reporting by the auditors of Liberata. While work has remained ongoing, this has resulted in a reduced level of assurance being provided than anticipated on the operation of the new financial system in the current financial year. As highlighted elsewhere in this AFR, the Council were able to produce financial statements for 2017/18 in line with their timetable for publication and draft accounts were provided for audit as anticipated. The new system has created some difficulties in terms of reporting, particularly understanding how information is presented and can be used. This has caused delays in the audit process, and in some areas created additional testing, the details of which are included as part of the earlier part of this report to avoid duplication. 	<p>Auditor view</p> <ul style="list-style-type: none"> The Council has appropriate arrangements in place to produce accurate and timely financial reporting. There remain areas where improvements can be made in future years. <p>Management response</p> <ul style="list-style-type: none"> Agreed

Key findings continued

Significant risk	Findings	Conclusion
Commissioning arrangements	<ul style="list-style-type: none"> • The Council have embraced the idea to be a commissioning Council, with over 75% of its services provided externally to the Council. In recent years a number of major contracts have been let, some of which have encountered severe delays and or disruption to services and members of the public. We considered the arrangements in place around these contracts, in particular, the Evesham Abbey Bridge replacement, Malvern Link Railway project, Bromsgrove Railway project, the Learning and Achievement contract with Babcock and the HR and Financial Services contract with Liberata. • As these related to major contracts, the commissioning process has, not unexpectedly, spanned a number of years. In that time, the arrangements at the Council have changed, with the introduction of a Commissioning Toolkit, and a more centralised commissioning function. The introduction of the centralised commissioning function was as a result of the need to bring greater expertise and experience into this area and support the service departments commissioning the services. These arrangements have been developing during the period under which these contracts were let. • In all but one of the contracts reviewed, Council officers have undertaken a review of the issues encountered during the procurement, often resulting in a 'lessons learned report' or limited assurance report from internal audit. • These reports do not identify one persistent theme, or weakness in the arrangements. Instead they point to areas where contractors' assumptions could have been more robustly challenged, or where greater experience from the commissioning department could have led to better initial contract management. • For the contracts we examined, the key driver for putting them out to tender was to fit with the agreed corporate objective to become a commissioning Council. As a result the potential disadvantages of providing these services from outside of the Council was not considered in reports to members. This remains consistent with our previous reporting on commissioning arrangements in 2014/15, where we highlighted that reports to members on the new operating model focused heavily on the potential advantages and savings that could be possible, but provided limited discussion on the risks and disadvantages. • In all cases, the Council have acted positively and proactively to support the commissioning department, putting in extra resource to help rectify problems and minimise service disruption and delivery. This should however be the exception rather than the rule. • While there is training available and guidance on the Council's intranet, the responsibility for the Commissioning of services lies with the individual service. There is no clear evidence that the lessons learned from major contracts are being considered and included in the appropriate training for officers engaged in procurement activity and as a result there remains a risk that further issues could be encountered with other major contracts. 	Auditor view <ul style="list-style-type: none"> • While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we are proposing an except for VFM conclusion. Management response <ul style="list-style-type: none"> • Agreed
<ul style="list-style-type: none"> • The Council has outsourced a number of its key contracts during the last 12 months • We will review the arrangements for outsourcing these contracts, and how they have been managed and monitored. 		

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit services were identified.

Service	£	Threats	Safeguards
Audit related			
SFA compliance certification (2017/18) Note – Officers have approached us about undertaking this work for the 2017/18 year, however no formal engagement letter has yet been signed.	£4,000	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £95,446 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
TPA certification (year ended March 2018) Note – Officers have approached us about undertaking this work for 2017/18 year, however no formal engagement letter has yet been signed.	£4,200	Self Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £95,446 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None identified for 2017/18	Nil	Nil	

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Action plan

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1 	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 more timely and efficient manner.	<p>Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed
2 	Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process.	<p>The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed
3 	VFM – Financial Sustainability	<p>Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council's 2016/17 financial statements, which resulted in seven recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note three are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<ul style="list-style-type: none"> All officers that post journals should be reminded of the need to include a description of the journal. 	We undertook some limited testing of journal entries as part of our interim audit. This did not identify any missing journal descriptions. We are yet to conclude our journal testing as part of the year end process.
2 ~	<ul style="list-style-type: none"> 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. 	The interim s151 officer undertook a detailed review of the accounts production process and this was reported to members. As a result, roles and responsibilities in the finance team were reviewed and a greater focus was put on the production of the financial statements. There have been additional members of the team get involved in the accounts production process, and in some areas there has been appropriate evidence of quality assurance. A high level of quality assurance has not operated across the board and while there have been areas where the quality of working papers as part of the final accounts production process has improved, these areas remain in the minority.
3 ~	<ul style="list-style-type: none"> 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. 	As we reported as part of our audit plan in March, this was an area on the timetable that had slipped. Officers were however able to demonstrate that the key processes necessary to produce the financial statements were in place prior to the end of the year. The area that has created greatest difficulty is around detailed transaction listings to enable both finance and audit staff to test the balances held within the accounts. This is a key area for improvement for the upcoming year to ensure that the timetable can be met in an efficient manner.
4 ✓	<ul style="list-style-type: none"> 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 they are evaluated and by whom. There need 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. 	Officers put in place a new process in the year for compiling the AGS, which appears to have worked well. The process ensures involvement from across the Council. We have not identified any omissions from the statement and consider it to be consistent with our knowledge.

Assessment

- ✓ Action completed
- X Not yet addressed
- ~ Part addressed

Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5	 <ul style="list-style-type: none"> 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 declaration required for the financial statement disclosures. 	<p>The note has been simplified this year from prior years. The process for compiling the note has been reviewed and confirmation has been gained from heads of service as to it's completeness.</p>
6	 <ul style="list-style-type: none"> 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. 	<p>The format of this note has been changed for the current financial year and now aligns with the examples provided within the Code.</p>
7	 <ul style="list-style-type: none"> 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. 	<p>While the second interim audit visit undertaken in April went well, there remained key issues outstanding at the end of this visit that were not addressed prior to the financial statement audit. In particular these were the actions on the completeness of the journal population and the need to improve the working papers for individual transaction testing.</p>

Assessment

-  Action completed
-  Not yet addressed
-  Part addressed

Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Statement/Notes affected
<p>1 Creditors: Manual Accruals: The value included in the draft accounts for creditors manual accruals is £25,114,068.88. The Council included an incorrect adjustment for £23,847,344.00 which should have been £20,000,000. This gives a balance for creditors manual accruals of £21,266,724.88 and a variance from the original value of £3,847,344. The opposite entry is in debtors see below.</p>	Balance sheet and creditors note (note 25)
<p>2 Debtors: Manual Accruals: The value included in the draft accounts for debtors manual accruals is £25,220,494. The Council included an incorrect adjustment which should have been for £20,000,000. This gives a balance for debtors manual accruals of £21,549,186 and a variance from the original value of £3,671,308. The opposite entry is in creditors - see point 9 above, although the two variances between the original and the draft accounts do not net to nil - there is a variance of £176,036, which for the purpose of the accounts is considered trivial.</p>	Balance sheet and debtors note (note 23)
<p>3 NNDR appeals provision. The Council have included this as a long term creditors (as in 2016/2017) but the nature of the transaction is that it is a provision. The value for 2017/2018 is £2,153,747 and the value for 2016/2017 was £1,661,593.</p>	Balance sheet and long term creditors (note 21.1)

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Presentation and disclosure	<p>Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The initial volume of queries raised this year has reduced from the prior year and is more in line with expectations.</p> <p>The proposed minor adjustments were agreed with officers and changes have been made to the draft accounts that were submitted for audit.</p> <p>Examples include, a small number of prior year figures incorrectly brought through to the draft accounts, amendments to the narrative report to ensure consistency throughout the whole of the report, and missing note references on the MiRS, cashflow statement, the defined benefit pension scheme and critical judgements.</p>	✓
Note 19.2 Revaluations	<p>The column for Vehicles, Plant, Furniture and Equipment totalled £179.9m, however only one entry was included of £69.6m. The Council had omitted an entry of £110.3m which were for these assets held at cost.</p>	✓
Note 9.2 Senior employees' remuneration	<p>Nine errors were identified with the notes included within the draft financial statements. These can be categorised as follows;</p> <ul style="list-style-type: none"> • 4 errors where the incorrect position end date had been included • 2 errors where the incorrect expenses had been included • 2 errors where the incorrect salary had been included, and • 1 error where the incorrect start date had been included. 	✓

Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Reason for not adjusting
<p>1 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&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>	<p>This was considered to be immaterial, no subsequent adjustments have been made in the current year financial statements.</p>
<p>2 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>	<p>This was considered to be immaterial, no subsequent adjustments have been made in the current year financial statements.</p>
<p>3 Creditors – 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>	<p>We agreed with officers last year that this misclassification was not material to the accounts, and that a subsequent amendment would be made within the 2017/18 accounts. This amendment has been made in the draft financial statements.</p>

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	95,446	TBC*
Total audit fees (excluding VAT)	£95,446	£TBC*

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

* 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. As previously highlighted we have needed to undertake additional work as a result of the challenges of the reporting from the new financial system, and as a result of the quality of the working papers initially provided. 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 in our Annual Audit Letter.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• SFA compliance certification (2017/18)	£4,000
• TPA certification	£4,200
Non-audit services	Nil

Audit opinion

We anticipate we will provide the Council with an modified audit report

Independent auditor's report to the members of Worcestershire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Worcestershire County Council (the 'Authority') for the year ended 31 March 2018, which comprise the Comprehensive Income and Expenditure Statement, the movement in reserves statement, the Balance Sheet, the Cash Flow Statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements: give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended; have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **28 to 112**, the Narrative Report, the Annual Governance Statement and the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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

As explained more fully in the Statement of Responsibilities set out on page 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 resources for the year ended 31 March 2018.

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 be satisfied that 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 matters:

Children's Services

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.

Following the inspection the Council put in place a service improvement plan. The plan was accepted by Ofsted and during the last 12 months Ofsted published four letters summarising their findings from monitoring visits. The most recent was published in May 2018 and concluded that while the Council continues to improve, many of the processes put in place are still new and will need time to embed.

In addition the Council also received a separate visit from Ofsted in relation to services for Special Education Needs and Disabilities. The visit was undertaken in March 2018, with the results published in May 2018. The outcome of the inspection was that a written statement of action is required because of significant areas of weakness in the local area's practice.

These matters are both evidence of weaknesses in proper arrangement 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.

Commissioning

In recent years the Council has awarded a number of major contracts which have not delivered the anticipated outcomes, resulting in service disruption and the need for the Council to input additional resources to ensure that services are delivered in line with expectations. The most recent was the contract for HR and Finance Services. While the Council has in each case investigated the cause of the problems, it is not clear how the learning is being understood and disseminated to all staff involved within Commissioning, or that the relevant staff all have appropriate skills to ensure contracts are procured and implemented effectively.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the matters 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 resources for the year ended 31 March 2018.

Report on other legal and regulatory requirements - 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 2018. 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 Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 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 2018. 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 2018.

Director

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

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xx July 2018



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