



# The Annual Audit Letter for Worcestershire County Council

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**Year ended 31 March 2019**

**August 2019**



# Contents



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## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

## Page

3  
5  
10

## Appendices

- A Reports issued and fees

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) and the Pension Fund for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 29 July 2019.

## Our work

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's and Pension Fund's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	<p>We determined materiality for the audit of the Council's financial statements to be 14.533 million which is 1.9% of the Council's gross expenditure.</p> <p>We determined materiality for the audit of the Pension Fund's financial statements to be £27.010 million, which is 1% of the total net assets</p>
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 31 July 2019.</p>
<b>Whole of Government Accounts (WGA)</b>	<p>We are currently undertaking our work on the Council's consolidation return following guidance issued by the NAO. The deadline for completion of this work is the 13 September 2019.</p>
<b>Use of statutory powers</b>	<p>We did not identify any matters which required us to exercise our additional statutory powers.</p>
<b>Value for Money arrangements</b>	<p>We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 29 July 2019.</p>
<b>Certificate</b>	<p>We are unable to certify that we have completed the audit of the financial statements of Worcestershire County Council until we have;</p> <ul style="list-style-type: none"><li>• completed our work on the whole of government accounts statements (deadline 13<sup>th</sup> September 2019), and</li><li>• given the opinion on the consistency of the pension fund financial statements with the pension fund annual report (deadline 30 November 2019).</li></ul>

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# Executive Summary

## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An audit delivered by the statutory deadline – we delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those in relation to the valuation of PPE.
- Improved financial processes – we worked with you and feedback on areas where processes could be improved for future years, particularly in respect of disclosures and the treatment of financial instruments.
- Sharing our insight – we provided regular Audit and Governance Committee updates covering best practice. We also shared our thought leadership reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
August 2019

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's and Pension Fund financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £14.533 million, and determined materiality for the audit of the Pension Fund financial statements to be £27.010 million.

We also set a lower level of specific materiality for senior officer remuneration at the Council of £100k due to the sensitive nature of these.

We set a lower threshold of £ 0.726 million for the Council and £1.35 million for the Pension Fund, above which we reported errors to the Audit and Governance Committee, as Those Charged with Governance, in our Audit Findings Reports.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Council and Pension Fund.

We carried out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council and Pension Fund business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements (Council)

## Significant Audit Risks

These are the significant risks which had the greatest impact for auditing the Council and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• Considered the competence, expertise and objectivity of any management experts used;</li> <li>• Reviewed the basis on which the valuation is carried out and challenged the key assumptions;</li> <li>• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>This was a particular area of difficulty during the audit last year, and as a result there have been communications between the audit team and finance officers throughout the year. Working papers demonstrating officers' assessment in relation to the assets not revalued in year were not available at the start of the audit, the final version of the working papers were provided to the audit team on the 10<sup>th</sup> July.</p> <p>While our work in this area didn't identify any material issues with the valuation of land and buildings, this remains an areas where the working papers will need to improve in future years.</p> <p>We were satisfied that the value of land and buildings in the financial statements were materially accurate.</p>
<p><b>Valuation of net pension liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out;</li> <li>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identified any issues in respect of the Pension Fund net liability. We have worked with officers of the Council to ensure an appropriate resolution is reached in relation to the McCloud ruling. The Council have obtained a revised actuarial report and made the amendments to the draft financial statements.</p> <p>No further issues were identified in our review of the pension net liability.</p>

# Audit of the Financial Statements (Council) - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our work did not identify any issues in respect of management override of controls to bring to your attention.</p>

# Audit of the Financial Statements (Pension Fund)

## Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy for auditing the Pension Fund and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of level 3 investments</b></p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of Level 3 investments as a risk requiring special audit consideration.</p>	<p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;</li> <li>• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and</li> <li>• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period</li> </ul>	<p>As part of testing of our classification of investment assets we noted that the Pension Fund initially received the market value report from it's custodian Mellon. On review of the report, the Pension Fund have amended some of the categories that Mellon had assigned to the investments. The audit team have checked the re-classifications and are satisfied that the changes are in line with the evidence received from the Fund Managers. This provides appropriate evidence of challenge by the Pension Fund of the work undertaken by the expert. The Pension Fund have informed the audit team that they are going to raise this issue with Mellon as part of the wash-up session after the accounts to ensure consistency of approach in future years.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Management override of controls</b></p> <p>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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the accounting estimates, judgements and decisions made by management and considered their reasonableness,</li> <li>• Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness, and</li> <li>• Evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our testing of estimates, judgements and journals have not identified any evidence of management override of controls. Our testing of journals did, however, identify one journal out of nine where the journal had not been authorised. While this had not followed the pension fund control procedures we considered the journal to be appropriate and therefore did not extend our testing in this area.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council and Pension Fund's financial statements on 31 July 2019.

## **Preparation of the financial statements**

The Council and Pension Fund presented us with draft financial statements in accordance with the agreed timetable of the end of May 2019. There is a clear trajectory of improvement with the working papers from the prior year, however there remain some areas where the clarity of working papers could be improved.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Audit and Governance Committee on 29 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and Pension Fund.

## **Whole of Government Accounts (WGA)**

We are currently undertaking our work on the WGA submission,, the deadline for this is the 13 September 2019.

## **Other Statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, or to apply to the Court for a declaration that an item of account is contrary to law. We have not had to use these powers.

## **Certificate of closure of the audit**

We are unable to certify that we have completed the audit of the financial statements of Worcestershire County Council due to the following:

- completion of the WGA statement (deadline 13 Septembers 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 30 November 2019).

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Children's Services</b></p> <p>Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017. In addition the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities. The outcome of the inspection was to require a written statement of action because of significant weakness in the local area's practice.</p> <p>We will review the progress the Council is making against the recommendations arising from the Ofsted review. This includes the steps that are being taken to establish a wholly owned subsidiary company to deliver children's services.</p>	<p>Since the original 'inadequate' Children's Service inspection in January 2017 the Council have received 7 monitoring visits from Ofsted. This final monitoring visit took place on the 8 and 9 January 2019.</p> <p>Feedback from Ofsted from this visit continued to highlight good progress, with no areas of significant harm identified that had not been responded to by the local authority. There still remained areas for improvement, however, these were largely where processes needed to embed, or where Ofsted had reviewed case files relating to old cases where the recent improvements are not been able to be demonstrated.</p> <p>On the 29 July 2019 Ofsted published the findings from a full reinspection of Children's Services, which took place during June and July. The report recognised that progress had been made in many areas of Children's services. It noted that effective work by senior management and staff, together with commitment and investment by political leader has led to improved responses to the needs of children and families. As a result, outcomes for many children and their families are better, and there is evidence of a sustained trajectory of improvement. All areas were therefore assessed as requires improvement to be good.</p> <p>Ofsted also conducted a joint inspection of provision for children and young people with special educational needs and disabilities in March 2018 to judge the effectiveness of the area in implementing SEND reforms in Worcestershire. As a result of the inspection it was determined that a Written Statement of Action was required because of the significant weakness in the local area's practice. The action plan prepared jointly by the County Council and the CCG was submitted in August 2018.</p> <p>Monitoring has taken place against this action plan and there is evidence of improvements, with the development of a new local offer website where parents, carers and providers can find information about SEND provision and services. There is evidence that this is proving successful with over 500 returning visitors to the webpage. The % of looked after children with up to date health assessments continues to improve and has increased from 59% in May 2018 to 80% in January 2019.</p>	<p>As a result of the improved rating from Ofsted we have concluded that there are appropriate arrangements in place.</p>

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Children's Services</b></p> <p>Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017. In addition the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities. The outcome of the inspection was to require a written statement of action because of significant weakness in the local area's practice.</p> <p>We will review the progress the Council is making against the recommendations arising from the Ofsted review. This includes the steps that are being taken to establish a wholly owned subsidiary company to deliver children's services.</p>	<p>The department of education and NHS England advisors hold quarterly joint monitoring visits to discuss progress on delivering the SEND action plan. There have been 3 monitoring visits to date, (June 2018, September 2018 and December 2018). They have reported that key pieces of work have begun which should impact positively on outcomes for children and young people.</p> <p>Worcestershire Children First is the new company that will be responsible for delivering services to children and young people across Worcestershire. Services will transfer from the Council to the wholly owned not for profit company on the 1st October 2019. The initial scope of the company has been widened to include education services, SEND and early help, which will enable a sharp focus on the needs of young people. The Company has appointed its Chief Executive and Chairman of the Board in advance of the go live date. Work is ongoing to develop a business plan for the company, as well as developing arrangements for monitoring service delivery</p>	<p>As a result of the improved rating from Ofsted we have concluded that there are appropriate arrangements in place.</p>

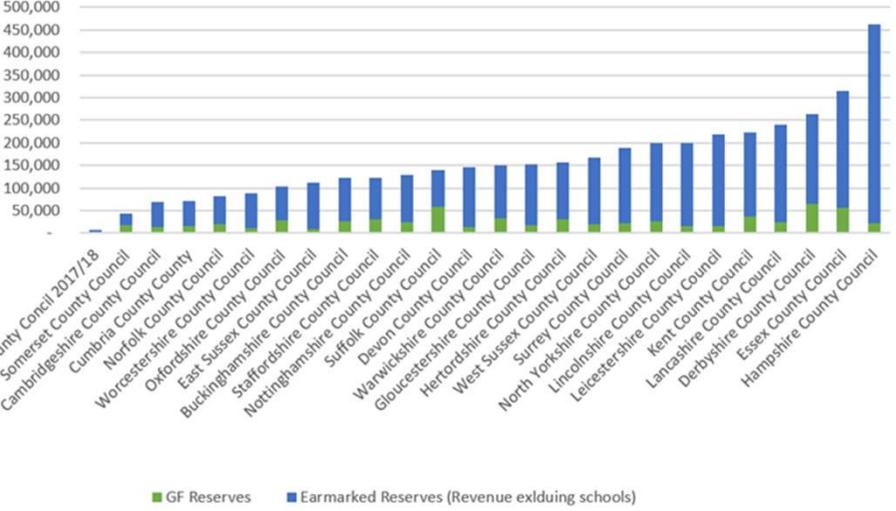
# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial Sustainability of the Council</b></p> <p>Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.</p> <p>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.</p>	<p>Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council have delivered a small deficit of £2m compared to a net budget requirement of £324m. This year end position was only achieved via some swift and decisive management action at period 4, which has enabled an initial predicted overspend of £12m to be managed down to £2m. 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.</p> <p>Whilst the final overall outturn was £2m, there were areas of significant overspending in adult services of £12.4m and to a lesser extent children's services of £1m. These overspends have been mitigated by savings in other areas, such as a £4.7m underspend in Economy and Infrastructure and £6.4m in Finance, the later as a result of reviewing financing transactions. Transformation projects are in place in both Adult and Children's services to mitigate these demand pressures and ensure that spending can be contained within budget in future years.</p> <p>Like many other local authorities, the funding for schools remains a significant challenge, with the DSG overspent by £7.7m in year. This comprises of a £9m overspend for High Needs Block and a £1.2m underspend on other DSG areas. Despite some additional funding and a depletion of prior year reserves the DSG has ended up in a deficit position of £0.6m. The Council recognises that this is not a sustainable position and is an area of concern which it continues to lobby central government about. It is likely that alternative funding in 2019/20 will need to be found to compensate for the magnitude of these overspends in the high needs block.</p> <p>The original savings target included in the 2018/19 budget was £37.4m. This consisted of £31.6m that was planned in 2018/19 and £5.8m of projects that were carried forward from previous years. As part of the review of the budget for the year, it was identified early on that the £5.8m carry over from prior years was unlikely to be achieved, and similarly the original target for 2018/19 was overly ambitious and that £2m would not be achieved. This gave a revised target for savings of £29.5m, of which £27.7m has been achieved.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.</li> </ul>

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial Sustainability of the Council</b></p> <p>Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.</p> <p>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.</p>	<p>In addition to the original savings identified in the budget, significant management action was identified as part of the period 4 budget monitoring, which has led to further savings of £10.5m being achieved. The delivery of these savings has ensured that the outturn position has been for only a small deficit in year, which can be contained within the current level of reserves.</p> <p>The s151 officer has assessed the level of reserves as appropriate at 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 £81.5m of earmarked reserves. Removing balances relating to schools of £5.6m and a further £11.8m where the reserves could be me used to support spend, gives an earmarked position of £64.1m which could be used to support services if required. This equates to almost three times the level of savings needed in 2019/20 and 19.4% of the budget requirement.</p> <p>Comparing these reserve balances with other county councils draft financial statements, Worcestershire is towards the bottom end of the scale, with only five county councils having lower level of combined general fund and earmarked reserves (when excluding schools). This is demonstrated in the graph overleaf.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.</li> </ul>

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<p><b>Financial Sustainability of the Council</b></p> <p>Like many other similar local authorities, the financial outlook remains challenging. The 2018/19 budget is predicated on the delivery of £31.6m of savings and at M6 the Council was reporting a projected overspend of £8.6m against its revenue budget. Latest financial plans indicate a further £19.6m savings will be required in 2019/20 with a further £14m in 2020/21 to achieve a balanced budget.</p> <p>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.</p>	<p>Plans are in place to deliver the £23m of savings that will be needed for 2019/20, with projects, such as the Council redesign, and savings on procurement already well advanced. Other savings plans have been challenged as part of the budget process with key projects going through the star chamber process.</p> <p>The latest budget monitoring for 2019/20 is predicting a small net overspend, which is predominantly made up of demand pressures on adults and children's services. In addition, the DSG High Needs Block is forecasting to overspend by a similar amount to prior year. Work is ongoing in these areas to bring spending back in line, or to fund via alternative savings.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• The Council will continue to monitor financial risk and resilience on an ongoing basis taking every opportunity to lobby and support central government to implement fair allocations of funding that appropriately recognise Worcestershire's circumstances. To support the 2019/20 budget and Council Tax precept, the Medium Term Financial Plan will be refreshed which will include confirming policy direction and savings/efficiency measures.</li> </ul>

# Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Commissioning arrangements</b></p> <p>The Council continues to outsource key contracts. Last year's VFM conclusion highlighted that the arrangements around commissioning were inadequate. In particular we highlighted that lessons learned from the implementation of major contracts was not being appropriately disseminated to all officers and that there was a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for users of the services.</p> <p>We will review the progress the Council has made in regard to the risk identified in the prior year.</p>	<p>Following the qualified VFM conclusion and the new senior leadership team in place at the Council, there has been an obvious focus on the need to improve the procurement and commissioning arrangements in place at the Council.</p> <p>The Corporate and Communities Overview and Scrutiny Board have received various reports and updates on commissioning, with the Audit and Governance Committee, also regularly updated on progress.</p> <p>Improved governance is in place, with the following measures being put in place during the year;</p> <ul style="list-style-type: none"> <li>▪ The introduction of a Commercial and Commissioning Board. The aim of which is to provide a strategic view of commissioning and commissioned services,</li> <li>▪ The introduction of a category management team, whose purpose is to ensure commerciality is introduced and to identify opportunities for reducing spend,</li> <li>▪ The introduction of a central buying team, and</li> <li>▪ The introduction of a greater focus on commercial reporting.</li> </ul> <p>We have reviewed minutes of meetings from the board and noted the focus on managing the procurement process, and identifying key risks. A set of actions is produced following the end of each meeting, which are monitored to ensure that all risks are addressed and tasks managed.</p> <p>Where contracts are let, or where decisions have been taken to move services back in house, a lessons learned report has been produced. This is shared as appropriate, in many cases, through the well established star chamber process. This helps ensure that learning points are shared across departments.</p> <p>Commercial reporting is significantly improved, with a dashboard system in place that shows contracts in place, savings and an overall workplan. Officers and members are able to access this, which gives a clear overview of the work that is ongoing within commissioning and procurement.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• Overall there is clear evidence that the Council has done a large amount of work in this area on the arrangements in place, and there is clear commitment from both senior officers and members to ensure that arrangements are robust and deliver the best value services for the residents of Worcestershire.</li> <li>• Given the nature of these projects and the long lead time, there is no evidence yet that the improved arrangements are delivering improved outcomes, however there is an expectation that the new arrangements would lead to better outcomes in the future.</li> <li>• The Council has appropriate arrangements in place.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• The Council has continued to strengthen it's arrangements around commissioning and this will remain a key business activity to ensure the appropriate resources are secured to undertake service provision.</li> </ul>

# Value for Money conclusion

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# A. Fees - Council

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

## Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Overruns as a result of the need to test additional sample items and additional queries on key working papers.	March and June 2019	As highlighted previously, given the nature of the output from the financial system, we have had to undertake additional substantive testing on balances compared to the level anticipated within the fixed fee. Key working papers, particularly on assets not revalued in year were not available at the start of the audit, and the audit team have taken additional time to work with officers to ensure that the accounts are not materially misstated.	4,450

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
<b>Council Audit</b>	95,446	73,493	73,493
<b>Additional Audit Fee (see above)</b>	28,185		13,450
<b>Total audit fees (excl VAT)</b>	<b>123,631</b>	<b>73,493</b>	<b>86,943</b>

## Non Audit Fees

	Fees
<b>Fees for other services</b>	
<b>Audit related services:</b>	£4,200
• Certification of teachers' pension return	
<b>Non-audit services</b>	
• CFO Insights	£12,500
	<b>£16,700</b>

# A. Fees – Pension Fund

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

## Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £19,222. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

## Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

## Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

## Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
<b>Pension Fund Audit</b>	24,963	19,222	19,222
<b>Additional Audit Fees (see above)</b>	5,200		1,500
<b>Total audit fees (excluding VAT)</b>	<b>30,163</b>	<b>19,222</b>	<b>20,722</b>

## A. Audit Related Services Fees – Pension Fund

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit.

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of ten other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officers has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.</p>	£8,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the majority of the cost of this work has been absorbed within the audit fee of the administering and admitted bodies (last year we charged the Pension Fund £1,193 for this work). Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Worcestershire Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Worcestershire Pension Fund.:</p> <ul style="list-style-type: none"><li>• Worcestershire County Council</li><li>• Worcester City Council</li><li>• Wychavon Council</li><li>• Wyre Forest District Council</li><li>• Malvern Hills District Council</li><li>• Hereford and Worcester Fire and Rescue Authority</li><li>• Redditch Borough Council</li><li>• Bromsgrove District Council</li><li>• West Mercia Police</li><li>• Herefordshire Council</li></ul> <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

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# A. Reports issued

We confirm below our final reports issued

## Reports issued

Report	Date issued
Audit Plan (Council & Pension Fund)	December 2018
Audit Findings Report (Council & Pension Fund)	July 2019
Annual Audit Letter (Council & Pension Fund)	August 2019



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