The Audit Findings for Worcestershire County Council

Year ended 31 March 2021

Worcestershire County Council

21 September 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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. Its contents have been discussed with management.

Name : Peter Barber
For Grant Thornton UK LLP
Date : 17 September 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire County Council (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council’s income and expenditure 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We commenced our post-statements remote audit in July and as at 21 September 2021 our audit is approximately 90% complete, although a number of substantial areas remain in progress that need resolution to enable sign off by the 30 September target date. Our findings to date are summarised on pages 5 to 18.

We have identified no material errors or adjustments to the financial statements and there are no matters arising to date that would require modification of our audit opinion. We have recommended a small number of other adjustments to improve the presentation of the financial statements. 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.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported by working papers of a similar quality to last year. The use of a new valuation expert this year has meant that communication has improved and access to explanations and working papers has been better than in prior years. We received prompt responses to our transactional based queries, with our more challenging judgemental queries taking longer. This reflects the continuous raising of the bar and us as auditors providing greater challenge to the Council especially in the areas subject to greatest estimation and uncertainty.

Subject to the resolution of the outstanding queries, we anticipate issuing an unqualified audit opinion by the 30 September following the Audit and Governance Committee meeting on 24 September 2021, as detailed in Appendix D.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31st December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, (which will be reported in our Annual Audi tor's report in December 2021), the pension fund annual report and the WGA return.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report 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) and the Code, 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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Worcestershire Children First was required, which was completed by Grant Thornton UK LLP; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter the audit plan we previously communicated with you.

Conclusion

Our audit is approximately 90% complete, although a number of substantial areas remain in progress that need resolution to enable sign off by the 30 September target date.

These outstanding items include:

- completion of work on PPE
- completion of work on financial instruments
- completion of work on the capital financing requirement and minimum revenue provision
- completion of consistency checks of the MiRS and reporting through the EFA
- final review of group consolidation following MiRS amendments
- receipt of management representation letter (– see appendix F); and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The audit of the Council has again been completed remotely, with good use made of video calling and screen sharing. We have also successfully introduced a new software package to share files and manage requests for information, which has helped track queries and improve the efficiency on the audit. We will seek to develop this further in future years.

2. Financial Statements

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.

We have revised the materiality used for the draft financial statements due to the gross expenditure changing significantly from that at the planning stage, resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Worcestershire County Council

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	£14.5m £13.2m	£14.4m (£13.1m)	Materiality has been based on 1.5% of the Authority and Group's gross expenditure.
Performance materiality	£10.8m (£9.9m)	£10.8m (£9.9m)	Our performance materiality has been set at 75% of our overall materiality.
Trivial matters	£725k (£650k)	£725k (£650k)	This is set at 5% of financial statement materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration	£15.225k (£15k)	£15.225k (£15k)	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. Risk relates to both the Group and the Council	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. As part of our risk assessment, we consider the number of people that are authorised to post journals. The initial listing provided by management totalled 104 authorised individuals. An analysis of the full journal population identified that 446 individuals had actually posted journals in year. Upon investigation, the difference was identified to largely be as a result of users in schools, who while authorised to post journals, were not included on the original list provided by management. We recommend that management review the number of authorised users who can post journals, to ensure that remains appropriate.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Risk relates to both the Group and the Council Under ISA (UK) 240 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. 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	We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire County Council. Our audit work has not identified any issues in respect of improper revenue recognition.
The expenditure cycle includes fraudulent transactions (rebutted) Risk relates to both the Group and the Council Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Worcestershire County Council because: • expenditure is well controlled and the Fund has a strong control environment; and • the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance. We therefore do not consider this to be a significant risk for Worcestershire County Council.	We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire County Council. Our audit work has not identified any issues in respect of improper expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings Risk relates to the Council only. The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1071 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these **assets are not materially different to the current value at the year end.** Our audit work to date has not identified any material issues in respect of valuation of land and buildings. As set out on page 5 there remain a number of substantive audit queries that require resolution in this area before we are able to conclude our work. Appendix C includes both adjusted and proposed unadjusted errors in relation to land and buildings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability Risk relates to the Council only The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1322m) in the Council’s balance sheet and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority’s pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council’s pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary’s work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council’s pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report. We are currently awaiting assurances from the auditor (also Grant Thornton) of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. This is expected later this week. Our audit work to date has not identified any issues in respect of valuation of the pension fund liability. We have specifically commented on the reasonableness of the assumptions used on page 13.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Worcestershire Children First	Grant Thornton UK LLP	A full scope audit has been performed by an audit team led by Bill Devitt from Grant Thornton. An unqualified audit opinion was given on the 27th July 2021 by Grant Thornton UK LLP. No significant issues were identified.	We have reviewed the work performed by the component auditor and have concluded that this provides sufficient assurance for the group audit.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £476m	Other land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The Council has engaged Wilk's Head and Eve to complete the valuation of properties as at 31 03 21 on a five yearly cyclical basis. 47% of total land and building assets were revalued during 2020/21. Management has considered the potential valuation change for those assets revalued in prior years, to determine whether there has been a change in the total value of these properties at 31 March 2021. Management's assessment of asset valuation over this period has identified no material change to the value of these assets. The total year end valuation of land and buildings was £476m, a net decrease of £34m from 2019/20 (£510m).	We have assessed Wilks Head and Eve to be competent, capable and objective. We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report. We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management in determining the movement of assets that have not been revalued in the current year. We have considered the estimate against indices provided by the auditor's expert and investigated differences. This has not provided any evidence that the estimate made by management is unreasonable. The working papers have continued to improve, however the greater emphasis placed on estimates as a result of ISA 540 means that further work is needed in this area by management to fully challenge the valuer and understand the basis of the estimates made. The accounts include some disclosure on the level of estimation uncertainty relating to PPE, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. In addition, the disclosure provided on material valuation uncertainty is currently unclear, as while it correctly highlights that asset valuations are not reported as being subject to 'material valuation uncertainty' the supporting paragraph then goes on to say valuations cannot be accurately predicted.	**Light purple**

Assessment

- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £444m</td>
<td>The Council's net pension liability at 31 March 2021 is £444m (PY £481m) comprising the Worcestershire Pension Fund Local Government defined benefit pension scheme obligations.

The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</td>
<td>

We have assessed the Council's actuary, Mercer, to be competent, capable and objective.
We have performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2020/21 roll forward calculation carried out by the actuary and have no issues to note.
We have used PwC as auditors expert to assess actuary and assumptions made by actuary, the assumptions used by the actuary are in the range anticipated by our auditors expert.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.1%</td><td>2.1% to 2.2%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.7%</td><td>2.7%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.2%</td><td>2.5% to 4.2%</td><td>●</td></tr>
<tr><td>Duration of liabilities</td><td>17 years</td><td>15 to 22 years</td><td>●</td></tr>
</table>

We have reviewed the reasonableness Council's share of LPS pension assets and have no issues to raise.
The accounts include some disclosure on the level of estimation uncertainty relating to the pension fund net liability, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates.

</td>
<td>Light purple</td>
</tr>
</table>

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Financial Instruments	The Council values its financial instruments at fair value, as informed by the advice of external and independent Treasury Management advisors and Investment Fund Managers. Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.	Our work in relation to financial instruments has not yet concluded and we will provide a verbal update to the committee.	TBC
Minimum Revenue Provision - £13.6m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £13.6m, a net increase/decrease of £1.6m from 2019/20.	Our work in this area is outstanding, and we will provide a verbal update to the Committee.	TBC

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment and Recommendations

To support the opinion on the financial statements we have completed an audit of the IT general controls as they affect the financial statements. A separate report has been provided to management, which included a detailed consideration of the issue raised and a recommendation. Management have accepted all of the recommendations in the report and provided a management response. Ten control weaknesses were noted in general IT controls, these can be summarised as follows;

- User access for terminated employees/ leavers not disabled in a timely manner
- Lack of documentation over Altair change of access rights
- Lack of documentation over testing performed for Altair upgrades
- Lack of review of information security event/audit logs
- Insufficient periodic review of user access
- Lack of documented IT operations policies
- Lack of documentation/evidence on E5 batch job completion process
- Non-compliance with the password policy
- Lack of process to proactively review IT service provider assurance reports
- No employee acknowledgement of the WCC IT Policies

The report included 6 recommendations where there were considered to be ineffective control’s which could create a risk of inconsequential misstatements within the financial statements, and 4 recommendations where we identified an opportunity to improve control.

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended.
Confirmation requests from third parties	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.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We have reported our findings in this area as part of appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. Working papers are of a similar quality to the prior year. Reporting from the finance system still includes large balances of debit and credit items that cannot be stripped from the population for testing. This continues to produce larger sample size for testing than we would expect for a Council of this type. This has been raised previously with both officers and members, particularly in light of the impact that this has on the audit fee, however we recognise that this is a function of the financial system that will be difficult to change. Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature that were provided at the start of the audit were not responded to until the end of the audit. This has identified some material omissions, which has placed unnecessary pressure on the deadline.

2. Financial Statements - other communication requirements

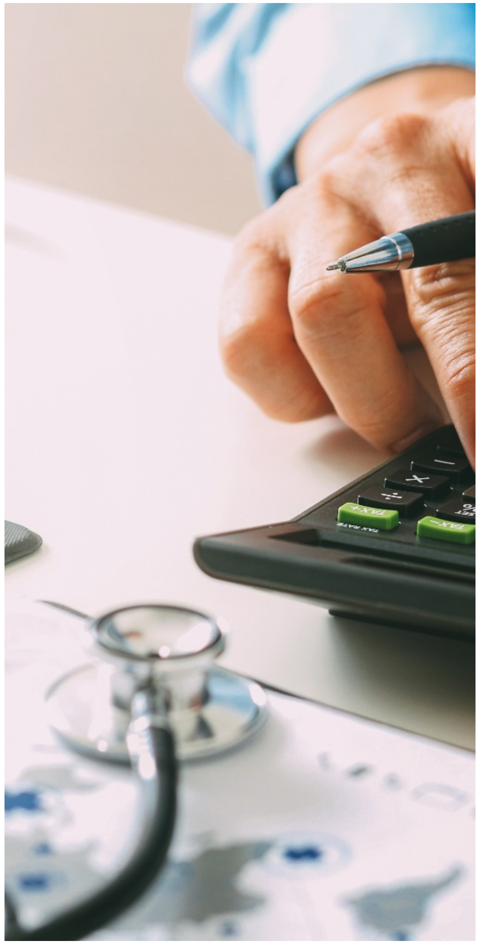
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. 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. Note that work is not yet completed and H M Treasury have indicated that the required data collection tool will not be available until December. Once the timetable is released we will work with officers to ensure the required procedures are completed.
Certification of the closure of the audit	We intend to delay the certification of closure of the 2020/21 audit of **Worcestershire County Council** in the audit report, as detailed in Appendix E, due to incomplete VFM work and the need to complete the procedures in respect WGA.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of December. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk/s set out in the table below. Our work on this risk/these risks is/are underway and an update is set out below.

Risk of significant weakness	Work performed to date
The Council set a balanced budget for 2021/22. To reach a balanced budget position a gap of £26.8m needed to be closed. This was achieved through a combination of additional government grant, additional income from council tax, identifying efficiencies and a use of earmarked reserves. The medium term financial outlook is more uncertain, with budget gaps of £32m identified for the 2022/23 financial year and further gaps of £43m in 2023/24. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability. We will review the plans the Council has in place to close the gaps, paying particular attention to the robustness of any savings plans.	Work performed to date • We have held a number of meetings with key officers of the Council, including the Chief Executive and s151 officer. • We have reviewed budget reports presented to members of both the Cabinet and the Council. • We have reviewed the going concern assessment provided by management in relation to the 2021/212 financial statements. Further work is scheduled on understanding in detail how savings plans have been identified, and assessed for robustness.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

- Kathryn Kenderdine acted as a member of the audit team of Worcestershire County Council during the 2019/20 financial statement audit. From the 12th April 2021, Kathryn took up a post in the Internal Audit function of Worcestershire County Council. We have considered the ethical implications of this change of employment and gained assurances from the Chief Finance Officer that Kathryn will not be responsible for any part of the preparation of the financial statements for the 2020/21 financial year. We have ensured that appropriate safeguards have been in place from when Kathryn first applied for the role, through to her leaving her employment with Grant Thornton. These safeguards have included, restricting Kathryn's access to any files or documents relating to Worcestershire County Council, and ensuring she is not present at any meetings where audit issues are discussed. As a further safeguard, any review of Internal Audit work during the course of our audit will not be undertaken by any junior member of the audit team that has previously worked to Kathryn.
- Under ethical standards audit managers are required to complete no more than 10 years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any managers having an association with a client for more than 7 years. The audit of the 2020/21 financial statements will be the 8th year of association for the manager of the County Council. PSAA have granted Helen Lillington as audit manager an extension for the 2020/21 financial statement audit, and this has been confirmed by our own internal ethics function. An additional review process has been put in place for these audit's this year, using our Quality Support Team. This will act as a further safeguard to independence.

We are satisfied that the matters above and proposed safeguards provide sufficient protection to enable us to remain independent to the audit of Worcestershire County Council for 2020/21. The Audit and Governance Committee, as Those Charged with Governance, confirmed their acceptance of these safeguards at their meeting in March 2021.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

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 group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	4,500	Self-Interest (because this is a recurring fee)	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 £4,500 in comparison to the total fee for the audit, 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	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 £12,500 in comparison to the total fee for the audit, 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. The work is undertaken by a team independent to the audit team. This is the final year of a three year contract, which expired 30/05/21.
Contract Assurance	38,750	Self-Interest, self-review, management.	This work was first agreed in April 2019 and was performed by a team totally separate to the engagement team. The free for the work is not significant compared to the total audit fee income and the work is neither recurring or on a contingent fee basis. The work was concluded in October 2020.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 4 recommendations for the group 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 2021/22 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
Medium	Ten recommendations have been identified in relation to the IT control audit. A separate IT report has been shared with management providing the detail.	Management should continue to implement the recommendations as set out in the detailed IT report. **Management response** Officers will consider and implement the recommendations identified in the IT control audit in 2021/22.
Medium	As part of raising the bar, there is a much greater focus on the clarity of financial reporting, particularly in key areas that involve estimation and judgement.	Management need to undertake a detailed review against the Code and determine if the level of disclosure remains appropriate. Particular areas of focus should be PPE, Pensions and financial instruments. **Management response** Officers will perform a full review of disclosures as part of preparation work for the 2021/22 accounts.
Low	Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the most recent FRC thematic review.	Given the additional focus on accounting estimates, management should consider working more closely with fund managers and other experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements. **Management response** Officers will perform a full review of disclosures, and engage with experts as necessary, as part of preparation work for the 2021/22 accounts.
Low	The initial authorised journal posters listing provided by management totalled 104 authorised individuals. An analysis of the full journal population identified that 446 individuals had actually posted journals in year.	We recommend that management review the number of authorised users who can post journals to ensure that it remain appropriate. **Management response** Officers will review the individuals authorised to post journals to ensure it is appropriate.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations, however given their nature there remains further work to do as part of a continuous improvement journey.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Financial statements – working papers** The Council continues to be on a journey to improve working papers to support the financial statements. There have been improvements in some aspects, but there remains the need to focus attention on providing information right first time and with suitable supporting information. Officers should continue their focus on improving working papers. As in prior years PPE working papers remain those where greatest improvement is needed. Officers should give consideration to whether the current fixed asset register provides information in the most fit for purpose way to produce the disclosures in the financial statements and provide them with suitable management information.	Working papers are of a similar quality to the prior year, and the fixed asset register remains unchanged. The use of a new valuation expert this year has meant that communication has improved and access to explanations and working papers has been better than in prior years. Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature that were provided at the start of the audit were not responded to until the end of the audit. As part of raising the bar, there is a much greater focus on the clarity of financial reporting, particularly in key areas that involve estimation and judgement. Management need to undertake a detailed review against the Code and determine if the level of disclosure remains appropriate. Particular areas of focus should be PPE, Pensions and financial instruments.
✓	**Financial statements – working papers** While the shift to a remote audit has been largely successful, the sheer volume of queries that have gone through email has made the process difficult and time consuming to manage. During the interim audit we explored with officers the ability to use an audit management tool called 'Inflow' which is a package that both the audit team and officers have access to to manage the query process and exchange of working papers. This is widely used throughout our firm on both commercial and PSA audits and is an efficient way of managing the audit process, particularly while auditing remotely. Officers explained that there were barriers to using this from an IT perspective and as a result we have used sharepoint and emails instead. Explore more fully the barriers to implementing Inflow for the 2020/21 year of audit.	We have utlised the use of Inflow this year to manage the audit queries, and also to undertake an element of sample selection. Both officers and members of the audit team have found this easier to manage than email correspondence, and this has enabled queries to be tracked more easily. We will continue to develop the use of this tool in future years.
✓	**VFM – Financial Sustainability** Continue to review and closely monitor the deliver of the savings plans for 2020/21 and robustly challenge the deliverability of the budget in for future years.	We are yet to fully complete our work on VFM for the current financial year, however, there is no evidence to date that savings have not been challenged or monitored during the year.

Assessment

✓	Action completed
X	Not yet addressed

C. 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

We have not identified any adjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

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	Auditor recommendations	Adjusted?
Note 24.1 – Remuneration over £50,000	The classification from £130,000 to £134,999 for 2020/21 should be nil instead of the one that is currently presented.	✓
Note 14.1 - Property, Plant and Equipment Movements	The balances for PFI have been incorrectly disclosed across the individual lines in the note. The year end balance of £193.8m remains unchanged.	✓
Note 16 – Financial Instruments	The audit team have made a number of recommendations in respect of the financial instruments disclosures. • Cash balances of £24.3m should be included within the financial instrument disclosure note • Greater transparency is needed to demonstrate the link between the balance sheet and the financial instrument disclosure. • The accounting policy in relation financial instruments does not comply with the requirements of the Code. Officers have suggested some amendments to improve the disclosure.	✓
Note 16.3 – Financial instruments – Nature and extent of risks arising from financial instruments	The note doesn't currently include the level of detail required to comply with the Code. Information has been omitted in relation to the authority's credit risk management process and how expected credit losses have been measured.	X
Note 26 – Termination benefits and exit packages	The £100,001 to £150,000 banding was incorrectly stated and should show 1 exit package totalling £0.1m. The £150,001 to £200,000 banding was incorrectly stated and should show 5 exit packages totalling £0.8m	✓
Note 15.5 – Details of payments due to be made under PFI contracts	The service charge column is incorrectly stated, the draft accounts include a total of £138.2m this should be £142.1m, broken down in bands of 5 years.	✓

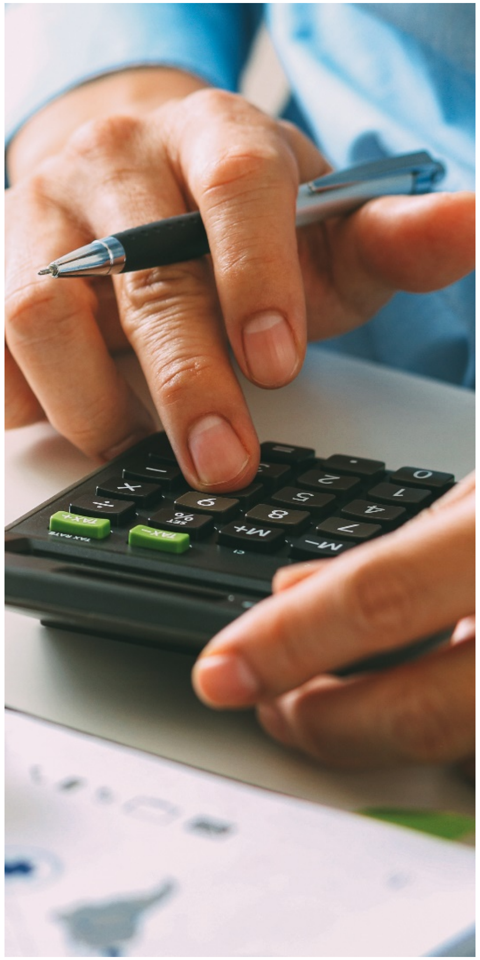
C. Audit Adjustments

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

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
MiRS and Note 11 – Adjustments between accounting basis and funding basis under regulation	The transfers to/from earmarked reserves is not part of the adjustments between accounting basis and funding basis and should be separately reported on the MiRS and should not be included in the adjustments reported at note 11.	✓
Accounting policies – Various notes	The following omissions were noted in relation to accounting polices; • The accounting treatment for the upfront payment of pension contributions, • Accounting treatment for revenue recognition, and • Accounting treatment for PFI.	✓
Balance Sheet – Investment property	The Council purchased a property in year valued at £11.9m, this does not meet the definition of an investment property as per the Code, and should be reclassified as land and building.	✓
Group MiRS	Initial consolidation checks identified that the group MiRS was not presented in line with the Code. The group CIES and group balance sheet as presented were not in balance	✓
Group debtors	The notes to the group accounts does not include an appropriate sub classification of the debtors balance, as this is materially different from the single entity accounts.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
An error was identified in the calculations made by the external valuer, where an incorrect land value had been used in the calculations. The error related to land at County Hall where the land value was overstated by £2.2m. The audit team have evaluated this error across the total land population, and this indicates a potential misstatement of £4.2m		£4.2m		Not material
The assets under construction balance of £87.8m includes £3.1m where the schemes are operationally complete. These balances should have been transferred to operational categories.		£3.1m		Not material
Overall impact		**£7.3m**		**Not material**

C. 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 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
The accounts include a negative earmarked reserve in relation to overspends of Dedicated Schools Grant (DSG) of £6.3m. We remain of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund. This is because the expenditure is required to be recognised in the year in which it is incurred and forms part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. The Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a 'statutory override' creating an unusable reserve) in 2019/20.		£6.1m (classification)		Not material. Following a change in legislation balances have now been accounted for differently and therefore this point does not carry over into the 2020/21 year end.
The assets under construction balance of £48.6m, includes £2.5m where the schemes are operationally complete. These balances should have been transferred to operational categories.		£2.5m (classification)		Not material. The same error has occurred in the current financial year and this is recorded in the table above
Overall impact		**£8.6m (classification)**		

D. 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	£119,343	TBC
Total audit fees (excluding VAT)	£119,343	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Certification of Teachers Pension Return	4,500	TBC
Other – CFO Insights Subscription	12,500	12,500
Other – Contract Assurance	38,750	38,750
Total non-audit fees (excluding VAT)	**£55,750**	**£TBC**

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements. Where they do not, we have provided a reconciliation

- £112,592 are the fees as per the financial statements.
- The figures disclosed in the financial statements is £74k as the original scale fee for the year, plus the £22k adjustment to the scale fee agreed with PSAA for the 2019/20 financial statement audit. Totalling £96k for the audit fee.
- In addition to the audit fee of £96k above a further £5k has been added for the teachers pension return and £12k in relation to CFO insights. Bringing the overall total to £113k as per the financial statements.
- The fee for contract assurance has been excluded, as due to it's timing, this was recorded in a prior year.

E. Audit opinion

Our audit opinion is included below.

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

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Worcestershire County Council (the ‘Authority’) and its subsidiary (the ‘group’) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. 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 group and 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority’s disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s or the group’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

E. Audit opinion

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Financial Report and Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. 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 obtained in the audit 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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.

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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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 in the Statement of Responsibilities (set out on page 22), 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 Annual Financial Report and 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 2020/21, for being satisfied that they 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 and the group'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 there is an intention by government that the services provided by the Authority and the group will no longer be provided.

E. Audit opinion

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 2003 and the Local Government Act 1972.
- We enquired of senior officers and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
  - Journals with a blank descriptions, as this could indicated that there is not a legitimate reason for posting a journal.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

E. Audit opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations, and did not identify an areas of non-compliance.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
    - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
    - knowledge of the local government sector
    - understanding of the legal and regulatory requirements specific to the Authority and group including:
        - **the provisions of the applicable legislation**
        - **guidance issued by CIPFA, LASAAC and SOLACE**
        - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
    - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
    - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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.

E. Audit opinion

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Worcestershire County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the;

- Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report;
- Whole of Government Accounts, and
- The Pension Fund annual report.

Use of our report

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.

Signature:

Peter Barber, Key Audit Partner

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

Birmingham

Date: xx September 2021

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Worcestershire County Council Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Worcestershire County Council and its subsidiary undertaking, Worcestershire Children First for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include PPE valuations, the valuation of the pension fund liability and the measurement of financial instruments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we evaluated our estimation process for PPE valuations and appointed a new valuer to assist us in making the estimates in relation to our assets. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

    vi. there are no unrecorded liabilities, actual or contingent

    vii. none of the assets of the [group and]Council has been assigned, pledged or mortgaged

    viii. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

F. Management Letter of Representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as [they are immaterial to the results of the Council and its financial position at the year-end OR list reasons]. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

  a. the nature of the group and Council means that, notwithstanding any intention to liquidate the group and Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

  b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

  c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

  b. additional information that you have requested from us for the purpose of your audit; and

  c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

F. Management Letter of Representation

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit and Governance Committee at its meeting on 24 September 2021.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

G. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Nathan Desmond,
Audit and Governance Committee Chair
County Hall
Spetchley Road
Worcester
WR5 2NP

Dear Nathan

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor’s Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Peter Barber

Director and Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

grantthornton.co.uk