

The Audit Findings for Worcestershire County Council

Year ended 31 March 2022

Worcestershire County Council
November 2022



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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.

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Name : Mark Stocks
For Grant Thornton UK LLP
Date : 21 November 2022

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 2022 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 audit in July and our audit was substantially completed in September. Our findings to date are summarised on pages 5 to 18.

The Council chose to make a non-material adjustment to the financial statements in relation to grants received in advance which had incorrectly been included in creditors in the draft accounts. As a result, £8.2m was moved into grants received in advance from creditors. This did not affect useable reserves. We found a similar non-material error (£6.1m) had occurred in 2020/21. Whilst reviewing this, a related error was identified where material grant income (£23.2m) which should have been charged to income in 2020/21 (as there were no unfulfilled conditions on the grant income) was instead treated as a creditor. As this error affected the amount of income charged in the year, this increased useable reserves. As the combined error was material in the prior year, a prior year adjustment for both 2020/21 errors was necessary.

The Code requires infrastructure assets to be valued at depreciated historical cost. It also requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component is derecognised to avoid double counting. Most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and will therefore have treated the amount of the replaced component as zero. This is because the replaced component is considered to have been fully used up at the point that it is replaced. However, there is often a lack of evidence to support this assumption and some subsequent expenditure, is often in addition to the previous asset rather than being a direct replacement. There is a significant risk that local authority financial statements could be subject to qualified audit opinions in this area if no action is taken. The Department for Levelling Up, Housing and Communities (DLUCH) are therefore preparing a temporary statutory override with regards to infrastructure assets, whilst a permanent solution is developed by CIPFA. We expect this statutory override to be effective from late December 2022. In parallel to this, we understand that CIPFA are looking to revise the Code so that it reflects this temporary statutory override. Once these have been issued, we will develop an audit work programme to make an assessment of whether there could be a material risk of misstatement for the Council. We expect to be in a position to complete this work in January 2023.

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 a number of recommendations for management as a result of our audit work in Appendix A.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported in the main by good working papers. We received prompt responses to our transactional based queries, with inevitably our more challenging judgemental queries on PPE and grants taking a bit longer. This reflects the continuous raising of the bar and auditors providing greater challenge to the Council each year 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 following the Audit and Governance Committee meeting, as detailed in Appendix E.

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.

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 was sent before 30 September 2022. We expect to issue our Auditor's Annual Report by 31st December 2022. 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 Auditor's report in December 2022) 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 substantially complete.

There are a few outstanding items including;

- Clearance of review points
- Completion of work on investments, payroll, and group accounts
- receipt of management representation letter (see appendix B) and review of the final set of financial statements;
- finalisation of our internal expert review of differences between your PFI models and our equivalent models;
- Completion of our external expert review on their assessment of PPE assets not revalued in year; and
- Audit of infrastructure assets including justification from your engineers on the use of one standard useful economic lives of infrastructure assets be

Acknowledgements

We would like to take this opportunity to record our appreciation for the very good assistance provided by the finance team and other staff. We 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.

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 not revised the materiality used for the draft financial statements from audit planning. This materiality level was based on a percentage of 2020/21 gross expenditure.

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 (£14.5m)	£14.4m (£14.4m)	Materiality has been based on 1.5% of the Authority and Group's gross expenditure.
Performance materiality	£10.8m (£10.8m)	£10.8m (10.8m)	Our performance materiality has been set at 70% of our overall materiality.
Trivial matters	£725k (725k)	£725k (£725k)	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	£20.5k	£20.5k	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 controls around posting journals. We noted that the Council's ledger does not require independent authorisation of journal entries. We were told that individual directorates had processes to mitigate this weakness, but our testing found that this was not consistent and therefore was not a system that can be generally relied on.

Finance staff can also post manual journals to non manual batch types. Whilst follow up audit work did not identify any evidence of management override, this could potentially lead to journals escaping any form of authorisation process.

In general, we found that some of the Finance team were not fully familiar with some controls and processes for journals (such as authorisation, user listings and manual journals) and further guidance to staff may be beneficial. Improving controls in this process will reduce the opportunities for fraud and error.

These control weaknesses resulted in us increasing our risk assessment from 'low' to 'medium' risk, with the effect of increasing the overall amount of testing required to satisfy our audit requirements.

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 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 202s. 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 identified two important risks which necessitated additional work.

The first related to a number of significant increases in valuations carried out by your current valuers WHE when compared to the valuations carried out by your previous valuers. This was particularly important as there was a very significant value of PPE which had not been valued by your current valuer. We challenged the basis of valuations carried out by both your old and new valuers to establish if there was an error in either old or new valuations. With the assistance of our own expert valuer we were able to conclude that the valuations of both your current valuer and previous valuer were reasonable and complied with industry guidance. We note that the valuers had taken different views on a number of assumptions which had resulted in the significant differences between years.

A second issue related to the assessment of whether the value of assets not valued in the year would have changed materially. We challenged the basis of management's assessment that this would not have a material effect and utilised our own expert valuer to review the assumptions used in this assessment. We are currently awaiting their final assessment.

In Appendix B we further discuss the difficulties your current asset management system brings to the audit. We consider that management should assess whether this is still fit for purpose.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Energy From Waste (EFW) Plant

Risk relates to the Council only.

The Council carries a large Waste Management asset on their Balance Sheet. This consists of Plant and Equipment and due to the high value this will be considered a significant risk this year alongside valuation of Land and Buildings. Management will need to ensure the carrying value in the Council's financial statements is not materially misstated.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- As an expert valuer was used, the following verifications were completed:
- assessed instructions issued to valuation experts and the scope of their work (should an expert be used);
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote 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;
- evaluated the assumptions made by the valuer as at 31 March 2022.

Our audit work to date has not identified any material issues in respect of valuation of the EFW Plant. The Council now values this asset annually which reduces the risk that the value has changed materially from the last valuation.

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 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.

Our audit work has not identified any issues in respect of valuation of the pension fund liability. We note that the actual fund manager confirmations showed that the year end valuation of level 3 investments was £19.6m higher than that estimated in the accounts for the whole fund. This is because accounts need to be closed down on estimated values before final fund manager reports are received. Worcestershire County Council's share of these assets is approximately 31%. We have specifically commented on the reasonableness of the assumptions used on page 13.

2. Financial Statements - other risks

Risks identified in our Audit Plan

Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note

Risk relates to the Council only

Infrastructure assets includes roads, highways and streetlighting. As at 31 March 2021, the net book value of infrastructure assets was £418m which is a significant multiple of materiality.

In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated

historical cost. With respect to the financial statements, there are two risks which we plan to address:

- 1.The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.
- 2.The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.

For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.

Commentary

We have:

- Reconciled the Fixed Asset Register to the Financial statements**
- Using our own point estimate, considered the reasonableness of depreciation charge to Infrastructure assets**
- Obtained assurance that the UEL applied to Infrastructure assets is reasonable**
- Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated**

We have completed the work as set out above. The Council does not derecognise Infrastructure assets on replacement. As such, we cannot conclude that the disclosure is not materially misstated. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) are continuing to work on a Statutory Instrument with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It therefore is hoped that this Statutory Instrument, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances

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 27 th August 2022 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	<p>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 22 on a five yearly cyclical basis..</p> <p>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 2022. Management's assessment of asset valuation over this period has identified no material change to the value of these assets.</p>	<p>We have assessed your valuer Wilks Head and Eve to be competent, capable and objective.</p> <p>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.</p> <p>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.</p> <p>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. Please see our detailed comments on page 9.</p> <p>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.</p> <p>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.</p>	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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																				
Net pension liability – £436m	<p>The Council's net pension liability at 31 March 2022 is £436m (PY £444m) comprising the Worcestershire Pension Fund Local Government defined benefit pension scheme obligations.</p> <p>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.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> 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 2021/22 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 border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.8%</td> <td>2.7% to 2.8%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.4%</td> <td>3-3.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.9%</td> <td>3.9% to 5.9%</td> <td>●</td> </tr> <tr> <td>Duration of liabilities</td> <td>17 years</td> <td>15 to 22 years</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7% to 2.8%	●	Pension increase rate	3.4%	3-3.5%	●	Salary growth	4.9%	3.9% to 5.9%	●	Duration of liabilities	17 years	15 to 22 years	●	Light purple
Assumption	Actuary Value	PwC range	Assessment																				
Discount rate	2.8%	2.7% to 2.8%	●																				
Pension increase rate	3.4%	3-3.5%	●																				
Salary growth	4.9%	3.9% to 5.9%	●																				
Duration of liabilities	17 years	15 to 22 years	●																				

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	<p>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.</p> <p>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.</p>	Our work in relation to financial instruments has not identified any significant issues.	Dark purple
Minimum Revenue Provision	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.	Our work in relation to MRP has not identified any significant issues.	Dark Purple

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 completed an audit of the IT general controls as they affect the financial statements during the 2020/21. A separate report was provided to management, which included a detailed consideration of the issue raised and a recommendation. Management 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. We followed up on progress as part of our interim audit in 2021/22 and found that 3 recommendations had not been fully implemented. These relate to: improved audit logs, reviews of user roles and employee acknowledgement of Council IT policy.

We will continue to follow up progress at our next audit.

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	<p>All information and explanations requested from management was provided.</p> <p>Working papers were generally of a good quality. 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 sizes for testing than we would expect for a Council of this type and therefore takes more time on both the part of council staff and auditors. This has been raised previously with both officers and members, particularly in light of the affect it has on audit work.</p> <p>Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature inevitably took longer.</p>

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	<p>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:</p> <ul style="list-style-type: none"> 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. <p>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:</p> <ul style="list-style-type: none"> 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. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> 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	<p>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.</p> <p>No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and HM 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.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of closure of the 2021/22 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.</p>



3. Value for Money arrangements

Approach to Value for Money work

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came 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 is underway and an update is set out below.

Risk of significant weakness	Work performed to date
<p>The Council has set a balanced budget for 2022/23. This was achieved through a combination of factors including identifying efficiencies (£8m) and a use of earmarked reserves. The medium financial outlook is more uncertain, with budget gaps of £10.5m identified for the 2023/24 financial year and further gaps of £12.2m in 2024/25 and £9.6m in 2025/26. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.</p> <p>We will review the plans the Council has in place to close the gaps, paying particular attention to the robustness of any savings plans.</p>	<p>Work performed to date</p> <ul style="list-style-type: none"> • 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 2021/22 financial statements. <p>We will report the findings of this work in our Auditors Annual Report in December 2022.</p>

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.

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 2021/22. 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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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	7,500 (4,500 in 2020/21)	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 £7,500 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.
Audit of Worcestershire Childrens First Trust	31,500 (2021/22)	Self-Interest (because this is a recurring fee)	We also continue to carry out the audit of Worcestershire Childrens First Trust as we have done in previous years. The work is undertaken by a team independent of the County Council audit team. This is a separate audit engagement.

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 some 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 were identified in relation to the IT control audit in 2020/21. The Council has implemented a number of these recommendations into their IT general controls environment, however there are three still in progress. These relate to improved audit logs, reviews of user roles and employee acknowledgement of Council IT policy.	<p>Management should continue to implement the remaining three recommendations as set out in the detailed IT report.</p> <p>Management response</p> <p>We will review these recommendations and move forward with implementation</p>
Low	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. Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the recent FRC thematic review.	<p>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. Given the additional focus on accounting estimates, management should consider working more closely with experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements.</p> <p>Management response</p> <p>We will review the Code and continue to put more detail into disclosures where required</p>
High	<p>The Council's ledger does not require independent authorisation of journal entries. We were told that individual directorates had processes to mitigate this weakness, but our testing found that this was not consistent and therefore was not a system that can be generally relied on.</p> <p>Finance staff can also post manual journals to non manual batch types. Whilst follow up audit work did not identify any evidence of management override, this could potentially lead to journals escaping any form of authorisation process.</p> <p>In general, we found that some of the Finance team were not fully familiar with some controls and processes for journals (such as authorisation, user listings and manual journals) and further guidance to staff may be beneficial. Improving controls in this process will reduce the opportunities for fraud and error.</p>	<p>Improve controls around the authorisation of journals.</p> <p>Management response</p> <p>We have had initial conversation with Systems Team about how to improve in-system and out-of-system controls</p>

Controls

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

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
Medium	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. As in prior years, documentation around PPE is difficult to follow - the asset register for example is a download from E5 which doesn't display the detail we would expect. Furthermore, we noted that prior year revaluation dates are in some cases not in line with WHE's records, and prior year revalued amounts are not recorded in spreadsheets. We would recommend the client continue to try and improve their documentation around PPE.	Review whether your asset register is now fit for purpose. Management response Complete rebuild of asset register is currently underway
Low	We noted that assets held by the Council are held under an overall code (in the format YRAJ for example) however within this one asset there will be a large amount of asset "numbers". These denote the different elements of the asset, such as Land or extensions. However on reviewing the detailed asset listings, it was noted that many of these asset numbers displayed a nil or £0.01 asset value. These defunct asset numbers increase the size of the asset listings, with asset code YRAJ for example having 26 asset number but only 7 which contain genuine values. A clean up exercise is recommended to remove defunct asset numbers from the register.	Carry out a clean up exercise to remove obsolete asset numbers from the fixed asset register Management response Complete rebuild of asset register is currently underway
Low	There are a large number of negative assets in the FAR - these total (£21K) for Land & Buildings, but (£6m) for Infrastructure. On inquiry this relates to an issue in E5 which sometimes requires two assets to be created where there are multiple entries on a new asset (and these have different units of measurement). One asset will be a debit, and the other a credit - they will net off to a positive asset balance for that asset code.	Review processes to remove negative values in the asset register. Management response Complete rebuild of asset register is currently underway
Medium	There were a few areas in the audit where we identified that further guidance and training could be provided to council staff involved in financial processes. On page 7 of this report we noted that guidance on journal processes is needed. The errors found in grant income in the last two years would suggest that refresher training on the accounting treatment for grants is necessary. In addition the trivial errors we identified in the accruals process might suggest that training would help here too.	Develop training and guidance for finance staff on Management response We have incorporated training for service finance staff as part of our closedown timetable for 22/23

Controls

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

B. 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 2022

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 2021/22 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 2021/22("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.

B. 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.

B. 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 September 2022.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council

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

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
Technical Annexe	The initial draft statement of accounts had moved a number of notes which are required by the Code of Practice within the statement of accounts to a new section outside the statement. Whilst the objectives to declutter the accounts were laudable, this meant that the accounts were not Code compliant. This has been amended.	✓
Audit fees	The audit fees were initially shown as £133k and not £126k. This has now been amended.	✓
Note 15.5 details of PFI payments due	Changes were made to the service cost element figures in the note detailing future PFI payments due.	✓
Note 16.3 – Financial instruments – Nature and extent of risks arising from financial instruments	<p>The note didn't originally include the level of detail required to comply with the Code. Information had been omitted in relation to the Authority's credit risk management process and how expected credit losses have been measured. Within the disclosure checklist we noted that for credit risk management, the Authority did not disclose:</p> <p>The basis of inputs and assumptions and the estimation techniques used to:</p> <ul style="list-style-type: none"> i) Measure the 12-month and lifetime expected credit losses ii) Determine whether the credit risk of financial instruments has increased significantly since initial recognition iii) Determine whether a financial asset is a credit-impaired financial asset <p>How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macro-economic information.</p> <p>The note has now been improved.</p>	✓
Note 28-prior year adjustment	The initial draft prior year adjustments note did not include required information and has since been amended so that it complies with Code requirements.	✓
Note 6.3 DSG reserve	The format of the DSG reserve note 6.3 was amended to fully comply with the Code. This did not impact on the final reserve balance.	✓
Note 24.2	Some changes were necessary to prior year comparative figures in the senior officer remuneration note 24.2.	✓
Presentation and disclosure	Our review of the accounts highlighted some other minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation. Examples include some formatting issues and some note titles being updated.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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
None				
Overall impact	£0	£0	£0	NA

C. Audit Adjustments



Adjusted misstatements

The table below provides details of adjustments identified during the audit which have been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
In reviewing creditors as part of the 2021/22 audit we noted that the creditors balance included grants received in advance which the Code requires to be separately disclosed. The value of the amount to be transferred was £8.2m. We then reviewed the 2020/21 to see if this was also the case in previous years and noted further errors. We therefore asked the Council officers to carry out a full review. Officers confirmed that there were also grants received in advance which were included in creditors as at 31/3/21 (£6.2m) but in addition noted that some grant payments had been carried forward as creditors when they should have been taken to income in 2020/21 (and then transferred to reserves) as there were no outstanding conditions. This amount was £23.2m and this would have increased the surplus in 2020/21 and reserves by £23.2m. As a result a prior year adjustment was necessary.			
Transferring creditors to grants received in advance (2021/22)	£0m	£8.2m from Creditors to GRIA	£0m
Transferring creditors to grants received in advance (2020/21)	£0m	£6.1m from Creditors to GRIA	£0m
Reducing 2020/21 creditors and thereby increasing income in 2020/21	£23.2m increase in income	£23.2m reduction to Creditors	£23.2m reduction to net expenditure

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	£133,456	133,456
Total audit fees (excluding VAT)	£133,456	133,456

Grant claims

Nationally the fees for grant claims have risen across all bodies to reflect the actual cost of doing this work. At Worcestershire County Council this affected the teachers pension return only where the fee has risen from £4,500 to £7,500. Previously the fee had remained static for several years.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Certification of Teachers Pension Return	4,500	7,500
Other – CFO Insights Subscription (actually expired May 2021 but previous annual fee shown)	12,500	12,500
Total non-audit fees (excluding VAT)	£17,000	£20,000

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 2022, 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 2021/22.

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 2022 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 2021/22; 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 2021/22 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 2021/22, 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 2021/22, 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 2022.

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 2022.

[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 2022. 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 2022 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:

Mark Stocks, Key Audit Partner

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

Birmingham

Date:



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