Grant Thornton

The Audit Findings for Worcestershire County Council

Year ended 31 March 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Name : Mark Stocks

For Grant Thornton UK LLP

Date : November 2023

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 2023 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 November. Our findings to date are summarised on pages 5 to 18. We identified an error in the Council's PPE due to the duplication of floor areas at a school. This has now been corrected and reduced the value of PPE from the draft accounts by £9.1m. An £7.1m impairment (decrease in value) for County Hall in Worcester was also required due to the identification of reinforced autoclaved aerated concrete (RAAC) in the roof area. On our suggestion, the Council requested an assessment (IFRIC 14) on the extent it should recognise a defined benefit pension surplus in its balance sheet and was advised by its actuary to restrict the asset to zero. This was shown in the draft accounts as an £31.8m asset. This has been adjusted in the revised financial statements. The Council had netted off an overdraft on one of its bank accounts against a separate bank account of a different bank. The Council has amended its accounts disclosure to show these accounts separately. This had no net effect on the balance sheet. We have reviewed the Council's credit loss allowances and provisions for bad debt. We consider that these are potentially understated by £5m. We provide more detail on page 18 . There are no matters arising to date that would require modification of our audit opinion. We have recommended a 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 although we do recommend some areas where these can be improved in our action plan. We received prompt responses to our transactional based queries, with inevitably our more challenging judgemental queries on PPE taking a little 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 in December, 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. We expect to issue our Auditor's Annual Report in December. This is in line with the National Audit Office's revised deadline, 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. We have performed further procedures in respect of this risk. An update on this is set out in the value for money arrangements section of this report (Section 3).

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 which is expected to be published in December 2023.

Significant Matters

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

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us so constructively.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We are pleased to say that we have not seen this at this Council although as elsewhere we have noted an increasing trend to fund expenditure deficits from reserves.

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 other than to increase materiality levels on receipt of financial statements.

Conclusion

Our audit is substantially complete.

There are some outstanding items. These include ;

- receipt of management representation letter (see appendix) and review of the final set of financial statements;
- resolution of PFI queries and a few initial director review questions;
- return and review of some bank reconciliation evidence
- return and testing of remaining journals sample;
- receipt of borrowing confirmations directly from some lenders (we have Council evidence)
- consideration of latest CIPFA guidance on IFRIC14;
- receipt and review of a proposal to change the group consolidation: and:
- reconciliation on a gross basis to the fixed asset register.

Acknowledgements

We would like to take this opportunity to record our appreciation for the good assistance provided by the finance team and other staff. We have continued to utilise 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 revised the materiality used for the draft financial statements from audit planning to reflect the higher 2022/23 outturn gross cost of services 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)	£16.1m (£14.9m)	£16m (£14.8m)	Materiality has been based on 1.5% of the Authority and Group's gross expenditure.
Performance materiality	£11.3m (£10.4m)	£11.2m (10.3m)	Our performance materiality has been set at 70% of our overall materiality.
Trivial matters	£800k (745k)	£800k (£745k)	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	£100k	£100k	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 yet identified any evidence of management override of controls but there is some outstanding evidence required. 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 over-ride, this could potentially lead to journals escaping any form of authorisation process. 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. We consider the lack of an automated authorisation process for journals increases the risk of fraud and error in the financial statements and consider that appropriate controls should be introduced. We have raised a recommendation on this matter

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 significant 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 five-yearly basis to ensure the carrying value in the Council's financial statements is not materially different from current value at the financial statements date. In the intervening years, such as 2022/23, the Council requests a desktop valuation from its valuation expert. The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. 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 focused our audit attention on that have large and unusual changes and / or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration. The risk was pinpointed as part of our final accounts work, after we have understood the population of assets revalued	We: • evaluated management's processes and controls 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; • 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 valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable • tested a selection of other assets revaluations made during the year to see if they had been input correctly into the Council's asset register, revaluation reserve, and Statement of Comprehensive Income.; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • engaged our own valuer to assess the instructions to the Council's valuer, the valuer's report and the assumptions that underpin the valuation. • for all assets not formally revalued or revalued on a desktop/indexation basis only, evaluated the judgement made by management or others in determination of current value of these assets. Our work on the valuation of the Council's PPE identified an overstatement of £9.1 million caused by the duplication of floor area for a site containing two separate schools. An £7.1m impairment (decrease in value) for County Hall in Worcester was also required due to the identification of reinforced autoclaved aerated concrete (RAAC) in the roof area In Appendix B we further discuss some difficulties that 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 2023. Our audit work 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. The Council included a net pensions asset of around £31.8m in its balance sheet. This was based on the IAS19 estimate provided by the Council's Actuary. However, the Actuary had not considered at that stage the impact of IFRIC14. When requested to do so during the audit, the actuary recommended that the asset be capped at zero. The Council subsequently amended its accounts to reflect this.

2. Financial Statements - other risks

Risks identified in our Audit Plan	Commentary
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.	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 could not conclude that the disclosure is not materially misstated. This is a national issue and the Department for Levelling Up, Housing & Communities (DLUHC) issued a Statutory Instrument and this was laid in Parliament on 30 November 2022 and came into force on 25 December 2022. In parallel to this, CIPFA revised the Code so that it reflects this temporary statutory override. The Statutory Instrument sets out brought forward balances should be treated as accurate and that advanced disclosure should be made setting out the circumstances. We have now assessed the Council's infrastructure balance in this light, have reviewed the depreciation charge and the Council's disclosures. We are satisfied that there is not a material risk of misstatement for the Council and that the disclosures are appropriate.

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 Jim McLarnon from Grant Thornton. An unqualified audit opinion was given on the September 2023 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 in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations	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 23 on a five yearly cyclical basis.. 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.	We have assessed your valuer Wilks Head and Eve to be competent, capable and objective. We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report. We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management in determining the movement of assets that have not been revalued in the current year. The working papers have continued to improve, however the greater emphasis placed on estimates as a result of ISA 540 means that further work is needed in this area by management to fully challenge the valuer and understand the basis of the estimates made. The accounts include some disclosure on the level of estimation uncertainty relating to PPE, however the current disclosures do not comply with the Code or the expectation of the FRC thematic review in this area. The disclosures should provide a greater level of detail on the nature of the assumptions used in making the estimates, and the sensitivity of that assumption with the associated impact on the carrying value within the accounts. Disclosures should provide readers with sufficient detail that they can share in management's understanding of the uncertainties underlying those estimates. Our work on the valuation of the Council's PPE identified an overstatement of £9.1 million caused by duplication of floor area for a site containing two separate schools. An £7.1m impairment (decrease in value) for County Hall in Worcester was also required due to the identification of reinforced autoclaved aerated concrete (RAAC) in the roof area.	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 asset/ liability	The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	• 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 2022/23 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. • We have reviewed the reasonableness Council's share of LGPS 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 fully 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.	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.7% - 4.9%	●
Pension increase rate	2.7%	2.7%	●
Salary growth	4.2%	0.5% - 2.5% p.a. above CPI inflation (2.7% as above)	●
Duration of liabilities	17 years	12 – 18 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
Net pension asset/ liability(continued)		The Council 's draft statements included a net pensions asset of £31.8m. At the point of producing these statements consideration had not been given by the Actuary to IFRIC14. The Council's actuary was instructed during the audit to provide an IFRIC 14 assessment. This assessment recommended that the Council limit any net pensions asset at zero. The Council subsequently adjusted its accounts for this.	Light 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 - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Financial Instruments	The Council values its financial instruments at fair value, as informed by the advice of external and independent Treasury Management advisors and Investment Fund Managers. Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.	Our work in relation to financial instruments has not identified any significant issues.	Light 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.	Light Purple
Allowance for doubtful debts	In reviewing the Council's bad debt provision and allowance for doubtful debts, we consider that these allowances are likely to be understated based on the age and nature of the debts. Our estimate is they are understated by around £5 million. We recommend that you review the basis of this provision.	We consider the allowance is likely to be understated and have included this in our unadjusted misstatements table.	Grey

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 - 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. We did note some disclosed related parties which did not strictly meet the definition included in the Code of Practice.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We have reported our findings in this area as part of appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. Working papers 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 much 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. Some examples of this include fees and charges income, grants received in advance and accruals. This has been raised previously with both officers and members, particularly in light of the affect it has on audit work. Responses to queries of a transactional nature were generally responded to promptly, however more significant queries of a financial reporting nature inevitably took longer.

2. Financial Statements - other communication requirements

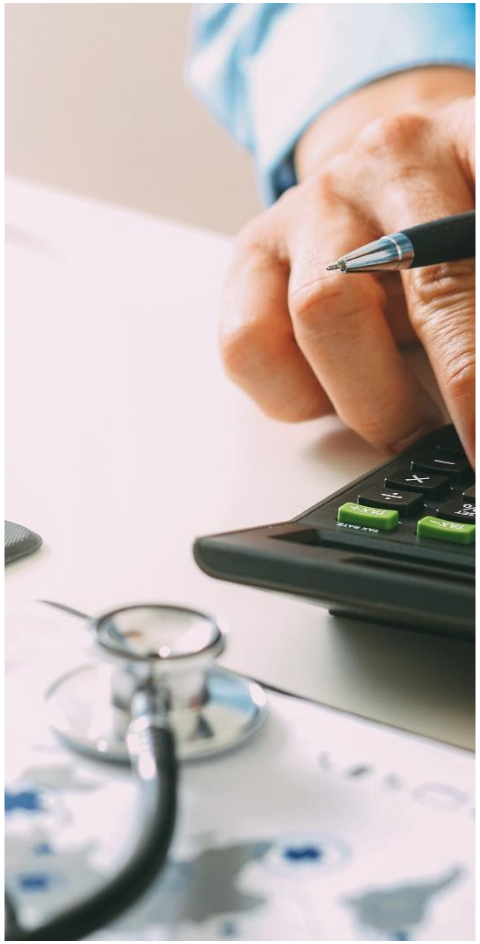
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council is under the threshold for detailed work but we are required to issue a return to the NAO on completion of the accounts audit.
Certification of the closure of the audit	We expect to the certification of closure of the 2022/23 audit of Worcestershire County Council on completion of our work on the accounts.



2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
E 5	ITGC assessment (design and implementation effectiveness only)	🟠	🟠	🟠	🟠	We have identified recommendations in our action plan
iTrent	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	We have identified recommendations in our action plan
Altair	ITGC assessment (design and implementation effectiveness only)	🟠	🟠	🟠	🟠	We have identified recommendations in our action plan

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟠 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

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 out 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.

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 completed our work on VFM and so are not in a position to issue our Auditor's Annual Report. We plan to issue our Auditor's Annual Report in December 2023.

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 set out in the table below. Our work on this risk is in progress and an update is set out below.

Risk of significant weakness	Work performed to date
The Council has set a balanced budget for 2023/24. This was achieved through a combination of factors including identifying efficiencies (£22m) and a use of earmarked reserves. The medium financial outlook is more uncertain, with budgets gaps of £22.4m identified for the 2024/25 financial year and gaps of £17.3m in 2025/26 and £10.5m in 2026/27. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.	Work performed to date • We have held a number of meetings with key officers of the Council, including the Chief Executive and s151 officer. • We have reviewed budget reports presented to members of both the Cabinet and the Council. • We have reviewed the going concern assessment provided by management in relation to the 2022/23 financial statements. This work is still in progress. We plan to report the findings of this work in our Auditors Annual Report in December 2023.

5. 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 2022/23 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 2022/23. 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 F.

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 Grant Thornton International Transparency report 2023.

5. 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 which were charged from the beginning of the financial year to the current date, 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	15,000 (2021/22) and £20,000 (2022/23)	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 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. The work is undertaken by a team independent to the audit team
Audit of Worcestershire Childrens First Trust	31,500 (2021/22 and 2022/23)	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.
		Self review (because GT provides audit services)	To mitigate against the self-review threat , the work is undertaken by a team independent to the audit team. The audit fee for this work is included in the Trust's financial statements.

5. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We drew your attention to Kathryn Kenderdine who is currently employed by the Council and previously worked with Grant Thornton. We also set out on previous pages the safeguards we have put in place to deal with any potential threat to our independence. We are not aware of any other former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff [that would exceed the threshold set in the Ethical Standard]

We have considered whether the ethical outcomes required by the overarching principles and supporting ethical provisions of the FRC Ethical Standard have been met by both the relevant requirements and with reference to the perspective of an objective, reasonable and informed third party. This assessment has also considered the matters reported above individually and in aggregate.

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

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.	Management should continue to implement the remaining three recommendations as set out in the detailed IT report. Management response We will review these recommendations and move forward with implementation. We will continue to provide updates on these recommendations to Audit and Governance Committee.
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 have improved recently but still lack some of the detail envisaged by IAS 540.	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. Management response We will review the Code and continue to put more detail into disclosures where required
High	The Council's ledger E5 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.	**Improve controls around the authorisation of journals.** Management response Given the limitation of 'in system' options regarding journal authorization, we will look to provide a training refresher for all Finance staff on good journal practice. We acknowledge that our processes around journals potentially requires auditors to increase testing in this area.

Controls

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

A. Action plan (continued)

Assessment	Issue and risk	Recommendations
Medium	We have observed that there is no signed or agreed section 75/pooled agreement in place with NHS Herefordshire and Worcestershire Integrated Care Board for 2022/23.	Ensure there is a signed agreement in place for pooled budget arrangements. Management response We will escalate this to ICEOG (Integrated Chief Executive Officer Group)
Medium	In Appendix C we reported several errors. Many of these could have been prevented by allowing some time for a quality review of the accounts prior to issue.	Ensure time is allowed for quality review of accounts prior to publication. Management response WCC Central Finance are currently fully staffed following a period of high staff turnover, which led to reduced capacity when completing the 2022/23 draft accounts. We are hopeful that our staffing position for the next closedown period will be better, which will enable more time for checking.
Medium	As in prior years PPE working papers remain those where greatest improvement is needed although there was a significant improvement on previous years. 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 such as gross book values and accumulated depreciation against those asset. We would recommend the Council continue to try and improve their documentation around PPE. We have also noted that 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 much 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. Some examples of this include fees and charges income, grants received in advance and accruals. This has been raised previously with both officers and members, particularly in light of the impact it has on audit work. The bank reconciliation was overly complex this year and contained multiple adjusting items which did not need to be included. This should be simplified for future years for efficiency purposes.	Review whether your asset register is fit for purpose and areas where working papers supporting the accounts can be further improved. Management response We have made progress with the asset register and PPE working papers, though we acknowledge there are further improvements to be made and we will continue on this path. We believe that there are actions we can take to reduce population sizes, though this is limited by the system. Central Finance will work with the Systems team who produce the population data to examine this. Central Finance will review the Bank Reconciliation progress with the Systems Team with a view to simplifying where possible.
Medium	Altair (pensions system) All staters, leavers and change requests are made to the third -party supplier of this system, Aquila. The supplier provides the user with access. Once access has been granted by Aquila, the level of access provided can then be altered by anyone with "admin" rights within the pensions team. User access rights are not periodically reviewed and approved. System access rights in E% , the ledger system are also not periodically reviewed.	The Fund should regularly review and approve access rights in Altair. Management Response: All access will be reviewed to ensure this recommendation is complied with, there is currently an internal audit reviewing a wider access review across the Pensions Administration to ensure appropriate controls. The admin rights will be also review as part of the audit.

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 2023

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 2023 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 2022/23 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 2022/23("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 December 2023.

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
Note 7	References to CCG changed to ICB in Note 7.	✓
Note 12	Note 12 required comparative information for 2021/22	✓
Note 2	Confusing zeros in the comparative information for note 2 were removed.	✓
Note 14.9	There was initially a contradiction between the figure for PFI MRP in notes 14.5 and 14.9	✓
Note 16.3	Note 16.3 on financial liabilities incorrectly showed nil creditors at amortised cost. There was also a confusing explanation which needed to be changed.	✓
Note 16.4	Note 16.4 on fair value of financial assets and liabilities referred to long term debtors which would be repaid within the next year. Financial instruments (Notes 16) have now been fully reworked by the Council.	✓
Note 21	Note 21 was altered to take out some confusing narrative referring to remeasurement of the net defined benefit surplus/ deficit rather than the actual surplus/ deficit	✓
Note 23.1	Notes 23.1 and 33 were altered to refer to the net pension liability/asset.	✓
Note 23.2	Note 23.2 referred to capital receipts of nil – only needed if there is a comparative but there was none.	✓
Note 30	Note 30-post balance sheet events- has now been completed by the Council.	✓

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted
IAS19 disclosures	Worcestershire Children First (WCF) participates in the Worcestershire LGPS but here is no pension liability in the WCF accounts. This is because the pension is accounted for as a defined contribution scheme as the Council bears the risk. This was not originally mentioned in the Council's accounts.	✓
Group notes	Group notes 2 originally referred to the 2020/21 Code not the 2022/23 one.	✓
Note 24.2	Note 24.2 includes disclosure of NI which is not required as it does not meet the definition of remuneration. The Council chose to include as provides greater transparency.	x
Note 33	Note 33 uncertainty re property valuations needed updating.	✓
Audit Fees	Non audit fees relating to the audit of the teacher's pensions return needed to be updated.	✓
Throughout	Our casting of the accounts statements notes found several errors which have now been corrected. In addition, our comparison of the prior year figures in these disclosure notes to the previous audited accounts also identified several errors. There were some incorrect references from the balance sheet.	✓
Note 24.2	Two senior staff members were initially excluded from the senior staff remuneration table. They have now been added.	✓
Note 24.1	The numbers of staff earning over £50,000 was incomplete due to missing several rows of payroll data in its compilation.	✓
Other information	We noted inconsistencies between the narrative statement and the statement of accounts themselves. (e.g. creditors and PPE values)	✓

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted
Notes 16.3 and 16.4	Several errors were noted in the figures in financial instrument notes 16.3 and 16.4 which necessitated reworkings of these notes.	✓
Note 12	Note 12 useable reserves was amended to correct the fact that descriptions of capital receipts applied and unapplied were the wrong way around.	✓
Note 11	The use of capital reserves to finance capital expenditure figure needed to be changed to £11.2m instead of £5.1m.	✓
Note 5	We noted some internal recharges which had been posted to both income and expenditure inflating both figures.	✓
Financial instruments	The note setting out the liquidity risks carried by the Council had been accidentally omitted from the draft accounts.	✓

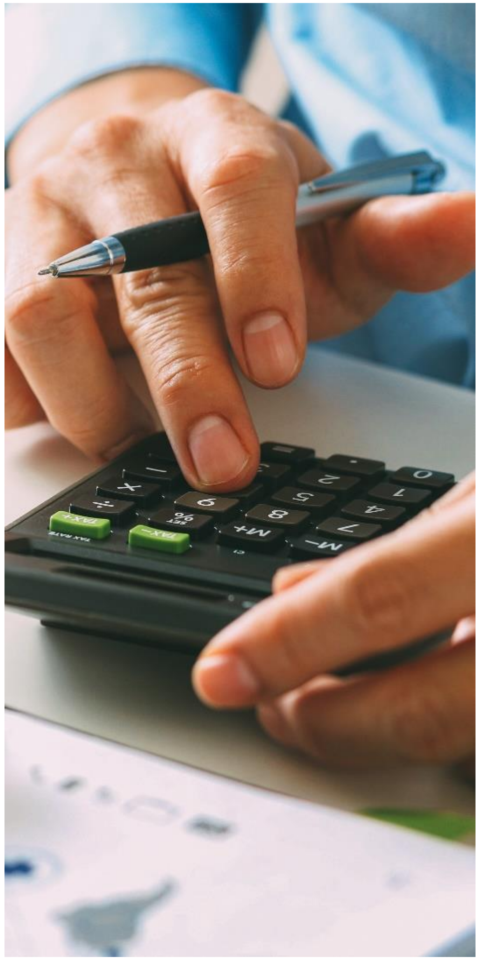
C. Audit Adjustments

Adjusted misstatements

The table below provides details of adjustments identified during the audit which have been made within the final set of 2022/23 financial statements

Detail	Comprehensive Income and Expenditure Statement (£)	Statement of Financial Position (£)	Impact on total net expenditure (£)
The Council included a net pensions asset of around £31.8m in its balance sheet. This was based on the iAS19 estimate provided by the Council's Actuary. However, the Actuary had not considered at that stage the impact of IFRIC14. When requested to do so during the audit, the actuary recommended that the asset be capped at zero. The Council subsequently amended its accounts to reflect this.	31,800,000	31,800,000	31,800,000
The balance sheet nets of cash and overdraft. This is possible only if there is a legally enforceable right of set off and the authority intends to settle on a net basis. We do not believe that to be the case. This point was repeated for the group balance sheet. Whilst this has a nil net impact on the balance sheet the correction of this led to an overdraft of £16.8m showing in current liabilities and cash and cash equivalents increasing by £16.8m as well.	0	0	0
The Council incorrectly charged to the revaluation reserve rather than CIES	3,683,830 credit to revaluation reserve	3,683,830 debit to revaluation reserve	3,683,830 credit to revaluation reserve
Our work on the valuation of the Council's PPE identified an overstatement of £9.1 million caused by duplication of floor area for a site containing two separate schools. In addition, a related error was noted in an adjoining library which reduced error to £8.9m.	0	8,900,000 debit to revaluation reserve and credit to PPE	0
Following the identification of reinforced autoclaved aerated concrete (RAAC) in the County Hall roof in Worcester, the Council requested the valuer to consider the impact on the total valuation. He proposed an impairment (decrease in value) of £7.1m.	0	7,100,000 debit to revaluation reserve and credit to PPE	0

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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
In reviewing the Council's bad debt provision and allowance for doubtful debts, we consider that these allowances are likely to be understated based on the age and nature of the debts. Our estimate is they are understated by around £5 million.	Decrease income by £5 million	Decrease debtors by £5 million	Decrease income by £5 million	Not material
Overall impact	£5m	£5m	£5m	NA

D. Fees

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

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69)). None of these services were provided on a contingent fee basis.

Audit fees	Proposed fee	Final fee
Council Audit	£140,306	£151,806
Total audit fees (excluding VAT)	£140,306	£151,806

The audit fees reconcile to those in the financial statements (there is a difference of £360 due to the financial statements being rounded down).

The final audit fee was higher than the plan due to work reviewing IFRIC14 (£4,000) and additional work required on PPE, your proposed prior period adjustment and additional sample sizes (£7,500).

Non-audit fees for other services	Proposed fee (3)	Final fee (£)
Audit Related Services - Certification of Teachers Pension Return (2021/22 and 2022/23)	15,000 and 20,000	TBC

Audit fees – detailed analysis

Scale fee	£87,056
Audit of Group Accounts (not included in the Scale Fee)	£3,750
Enhanced audit procedures for Property, Plant and Equipment (use of expert)	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£19,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£6,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Local risk factors – PPE, Pensions, Other	£7,000
Additional quality procedures – hot review	£1,500
Infrastructure	£2,500
Payroll – change of circumstances	£500
ISA 315	£5,000
IFRIC14 - Pensions	£4,000
Additional work required on PPE, PPA and sample sizes.	£7,500
Total audit fees 2022/23 (excluding VAT)	£151,806

All variations to the scale fee will need to be approved by PSAA

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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 2023, 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 2022/23, 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 2023 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: