

# The Annual Audit Letter for Worcestershire County Council

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**Year ended 31 March 2015**

October 2015

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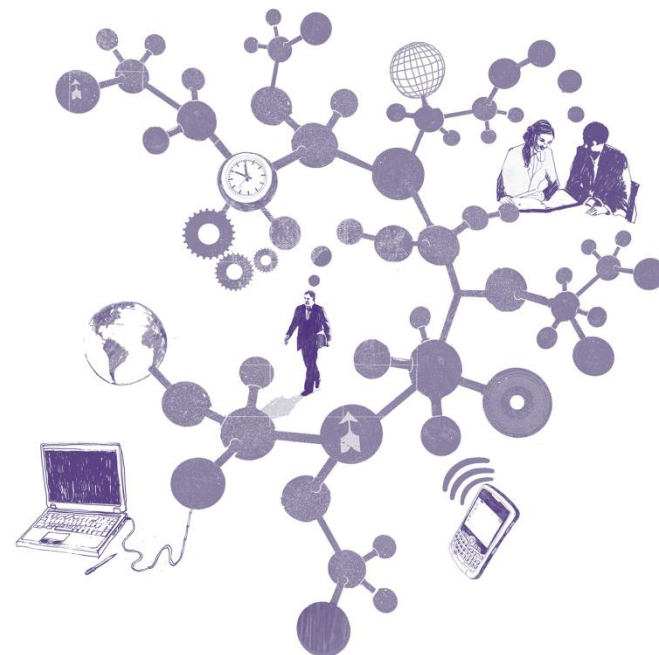
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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Worcestershire County Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 20 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

<b>Financial statements audit (including audit opinion)</b>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 26 June 2015 to the Audit and Governance Committee. The most significant findings were related to accounting for schools. While the authority had considered the changes required as a result of the amendments to the accounting requirements, limited evidence was available initially to support the accounting decisions made. Additional work was necessary by both officers and audit staff to ensure the decisions made were fully justified and documented. Following discussion of the initial treatment of school assets within the accounts, it was agreed that rather than accounting for the policy change in year, a prior period adjustment was required. We worked with officers to ensure that this change was made to the final set of financial statements. While the adjustment of £97.8m was significant, this did not impact on the Council's overall reported financial position.</p> <p>In addition to these issues, our other main findings were:</p> <ul style="list-style-type: none"><li>• Substantive testing identified errors in both employee remuneration and operating expenditure. In both cases this led to additional sampling being undertaken, plus more detailed quantification work to ensure that the results of the testing did not indicate a material error within the financial statements. We recognise that the need to produce the financial statements earlier will mean a greater level of estimation is needed in the accounts, and as such it is likely that in future years we will meet similar problems when undertaking detailed testing. We need to work with officers to ensure appropriate mechanisms are in place to evaluate any issues identified and their impact on the financial statements</li><li>• While the draft accounts were presented for audit in line with the timetable agreed, we experienced some difficulties with both the quality of working papers and the speed of response to queries. This was particularly evident in relation to the capital accounting entries, but also where information was provided from departments beyond the central finance team.</li></ul> <p>We have discussed the issues arising from this year's audit extensively with the Chief Financial Officer and his team and have received a positive and constructive response to our concerns. We will continue to work closely with officers to ensure that similar issues do not occur in 2015/16.</p>
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# Key messages continued

<b>Financial statements audit (including audit opinion) (contd)</b>	<p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 21 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified VfM conclusion for 2014/15 on 21 September 2015.</p> <p>Overall our work highlighted that the Council, like many others nationally, continues to face challenges in how to balance its budget. The authority delivered its savings target in 2014/15 although some of this was achieved through one off alternative funding. Pressures remain in key areas, particularly in looked after children. However appropriate arrangements are in place to monitor and respond to these pressures.</p> <p>The future fit programme remains at the heart of prioritising resources, with both officers and members demonstrating a good understanding of where resources needed to be focused. The ambition of becoming a 'Commissioning Authority' is still a strong theme in all that the Council does, with an increasing proportion of services now being commissioned from outside organisations.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>

# Key messages continued

<b>Pension Fund Financial statements audit (including audit opinion)</b>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 26 June 2015 to the Audit and Governance Committee. The key messages reported were:</p> <ul style="list-style-type: none"><li>• There were no adjusted or unadjusted misstatements to report,</li><li>• A variety of minor errors were been identified during out substantive testing of member data.</li><li>• Some officers were reluctant to provide the auditor access to key documents to be able to evidence the audit. While we understand the reluctance was due to data protection issues, the Audit Commission Act enables us access to all documents necessary to perform the audit. This resulted in additional senior officer and auditor input to resolve the situation and delayed the completion of the audit, and</li><li>• Working papers were provided in line with the agreed timetable and were generally of a good standard. There are some areas where the clarity of referencing could be improved, and we will continue to work with officers to build on the information provided to make the process as efficient as possible for both officers and the audit team.</li></ul> <p>We issued an unqualified opinion on the Fund's 2014/15 financial statements on 21 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirmed that the financial statements give a true and fair view of the Fund's financial position. In addition we provided the consistency opinion on the pension fund annual report on 30 September, which resulted in us being able to issue the completion certificate for the audit on the same day.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.</p>
<b>Audit fee</b>	<p>Our fee for 2014/15 was £136,171, excluding VAT. This includes an additional fee of £8,910 to reflect some of the cost of additional work we had to undertake during the audit of the statement of accounts. Further detail is included within appendix B.</p>

# Appendix A: Recommendations

We made a number of detailed recommendations during the audit in relation to IT controls and certain aspects of the preparation of the Statement of Accounts. These were included in the Audit Findings Report and are not significant enough to repeat here. We now make the following overall recommendation.

No.	Issue and recommendation	Management response/ responsible office/ due date
1.	<p>In order to improve the accounts production and audit processes for 2015/16, and ensure the Council is well placed for the earlier statutory deadlines from 2017/18, the Chief Financial Officer should ensure that:</p> <ul style="list-style-type: none"><li>- Any new accounting requirements are fully considered and appropriate responses put in place and agreed with us well before the accounts are produced</li><li>- The production of the Statement of Accounts and handling audit queries is given an appropriate priority across all relevant directorates and teams</li><li>- The standard of working papers and other evidence produced across the Council is improved.</li></ul>	<p><b>Management response:</b> The three recommendations raised will be incorporated into the Audit Planning process that commences in the Autumn of 2015</p> <p><b>Responsible office:</b> Chief Financial Officer</p> <p><b>Due date:</b> April 2015</p>

# Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

## Fees for audit services

	Per Audit plan £	Actual fees* £
Council audit	127,261	136,171
<b>Total audit fees</b>	<b>127,261</b>	<b>136,171</b>

\* Subject to PSAA approval

As reported in the Audit Finding Report additional work was required over the course of the audit, which has meant that we have been unable to deliver the audit within the existing fee structure. Detailed additional work was required on the accounting for school assets and the resulting PPA required. In addition the standard of both capital accounting disclosures and supporting working papers were below expectations for the third year running. Officers had previously been made aware that continued problems in this area would lead to the need to charge an additional audit fee. This was also against a backdrop of less detailed working papers and delayed responses from officers to queries, the cumulative effect of which has sought us to discuss an additional fee with the Chief Finance Officer.

## Reports issued

Report	Date issued
Audit Plan	20 March 2015
Audit Findings Report	26 June 2015
Audit Finding Report – Updated	3 September 2015
Annual Audit Letter	October 2015

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
None	Nil
<b>Non-audit related services</b>	
None	Nil

To date we have not completed any audit or non audit related services, however officers have approached us about completing audit related services for the certification of the following claims;

- HCA compliance audit – gypsy and traveller sites
- Major transport grant
- Teacher's pension return

# Appendix C : How we have worked with you during the year

## Senior officer team

### We:

- met regularly with the Chief Executive and the Chief Finance Officer to discuss some of your major projects and to share our insight into national Local Government issues,
- met regularly with both the Head of Internal Audit, and key accountants to provide regular feedback on emerging issues,
- shared our annual reports on Local Government Governance and Financial Resilience,
- shared our understanding of some of the key issues facing Local Government through our thought leadership reports covering Welfare Reform, Alternative Delivery Models and Financial Sustainability in Local Government,
- provided an opportunity to network with other Local Government bodies at our workshops covering taxation issues, building a successful local authority trading company, Local Government financial self sufficiency and 20:20 vision.

## Audit committee Members

### We:

- met regularly with the Audit Committee to ensure you were kept up to date with the audit progress, as well as emerging issues affecting the wider Local Government Sector
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance
- provided independent external audit commentary and insight on the Council's issues through senior attendance at every audit committee
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments.

## Other councillors

### We:

- provided an opportunity to network with other councillors at our workshops and training on governance issues.





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