



Annual Audit Letter

Year ending 31 March 2018

Worcestershire County Council

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

Our work

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| Materiality | We determined materiality for the audit of the Council's financial statements to be £15.232m, which is 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £24.8m, which is 1% of the pension fund's net assets. |
| Financial Statements opinion | We gave an unqualified opinion on the Council's financial statements on 31 July 2018. We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 31 July 2018. |
| Whole of Government Accounts (WGA) | We completed work on the Council's consolidation return following guidance issued by the NAO. |
| Use of statutory powers | We did not identify any matters which required us to exercise our additional statutory powers. |

Respective responsibilities

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

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

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

Executive Summary

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|-------------------------------------|---|
| Value for Money arrangements | We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matters we identified in respect of Children's Services and Commissioning. We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2018. |
| Certificate | We certify that we have completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice. |

Working with the Council

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

- An audit delivered by the statutory deadline – we delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those arising from the implementation of the new financial system.
- Improved financial processes – we worked with you to identify areas where processes could be improved for future years, in particular the necessary reporting from the financial system and the working papers needed to support revaluations.
- Sharing our insight – we regularly attended Audit and Governance Committee and shared our experiences. We also shared our thought leadership reports including those on setting up local authority companies.

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

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £15.232m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.1m.

We set a lower threshold of £0.761m, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Worcestershire Pension Fund accounts, we determined materiality to be £24.8 million, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for related party transactions. We set a threshold of £1.2m above which we reported errors to the Audit and Governance Committee.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

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

Audit of the Accounts

Significant Audit Risks

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

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK) 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.</p> | <p>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:</p> <ul style="list-style-type: none"> • 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 | <p>We do not consider this to be a significant risk for Worcestershire County Council</p> |
| <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p> | <ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Evaluated the rationale for changes in accounting policies, – reviewed journal entries and performed testing on large and unusual entries, – reviewed unusual significant transactions; and – reviewed significant related party transactions outside the normal course of business | <p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to our testing in this area is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It was necessary to consider a number of different ways to achieve this, however after working with finance officers a solution was eventually found. Testing of the journal entries did not in the event identify any issues.</p> |

Audit of the Accounts

Significant Audit Risks continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|---|
| <p>Valuation of property, plant and equipment The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p> | <p>As part of our work in the area we have;</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work, • reviewed the competence, expertise and objectivity of any management experts used, • reviewed the basis on which the valuation was carried out and challenged key assumptions, • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding, • tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. | <p>Officers had not undertaken work to demonstrate that the value of assets not formally valued in year was not materially misstated as part of the preparation of the financial statements. This is a key requirement of the Code, and one which we had already raised clearly in the previous year's audit.</p> <p>Initial audit work in this area demonstrated that while a significant proportion of the asset base of the Council had been revalued (79%), there remained a potential material uncertainty of £33m in the value of the assets that had not been revalued in year.</p> <p>As a result, we agreed with officers that further revaluations would be undertaken to ensure that the valuations within the accounts were materially fairly stated. This work has led to a number of adjustments to the financial statements, including a revision to the net book value of assets of £25.2m.</p> <p>As part of reviewing the work of the valuer we identified that the valuer had not, in certain respects, carried out the work exactly in line with the instructions given by the Council. Upon further challenge, the reason for this was that the asset records used by the valuer were incorrect, with one asset valued at £8m being incorrectly classified as a secondary school, when it should have been classed as an office building. This has not impacted on the valuation within the accounts, but does reinforce the need for officers to appropriately challenge the work of external experts and the asset records held.</p> |

Audit of the Accounts

Significant Audit Risks continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|--|--|
| <p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p> | <p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement, reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation, gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>Our work did not identify any issues to report.</p> |
| <p>New Financial System Implementation The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p>We identified the implementation of the new financial system as a risk requiring special audit consideration.</p> | <p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. | <p>The implementation of the new financial system has presented the finance team with significant challenges in terms of preparation of the financial statements. There have been problems experienced with the reporting of the journal populations, and there were delays in the completion the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p> <p>The area that has had the biggest impact on the impact on the audit is the reporting functions within the finance system. Officers have found it difficult to produce detailed transactions listings for balances within the accounts, which in a number of instances has resulted in the audit team having to test more transactions.</p> |

Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>Improper revenue recognition</p> <p>Under IS 240 (UK) here is a 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 o risk of material misstatement due to fraud relating to revenue recognition</p> | <p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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 Pension Fund, mean that all forms of fraud are seen as unacceptable. | <p>We do not consider this to be a significant risk for Worcestershire County Council Pension Fund.</p> |
| <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p> | <ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Obtained a full listing of journal entries, – Identified and tested unusual journal entries for appropriateness – Evaluated the rationale for changes in accounting policies or significant unusual transactions, and – reviewed significant related party transactions outside the normal course of business | <p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to this test, is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It was necessary to consider a number of different ways to achieve this, however after working with finance officers a solution was found. Testing of the journal entries did not identify any issues.</p> |

Audit of the Accounts

Pension Fund Significant Audit Risks continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| <p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p> | <ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of associated controls; – Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; – Considered the competence, expertise and objectivity of any management experts used; – Reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and – For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that data. We have reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>New Financial System Implementation</p> <p>The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p>We identified the implementation of the new financial system as a risk requiring special audit consideration.</p> | <p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> • reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, • completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, • reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and • reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. | <p>Given the more ‘contained’ nature of the pension fund, and the reliance on information from third parties for a significant proportion of the data needed to produce the financial statements, the impact of the new financial system on the pension fund has not been as great as for the Council financial statements. As for the County Council, there have been problems experienced with the reporting of the journal population, and there were delays in the completion of the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p> |

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided working papers to support them. The finance team responded to our queries during the course of the audit.

While there is evidence that members of the finance team have worked hard to mitigate the impact that the new financial system has had on the accounts production process, it has presented significant challenges to both the finance team and the audit team. In previous years, finance officers were able to run detailed transaction listings directly from the ledger. This enabled members of the finance team to have a clear understanding of the transactions in each balance and for the audit team to test transactions in an efficient way. While transaction listings were produced, this was often a time consuming process, or led to the need for the audit team to test additional transactions to gain the required level of assurance. The process was also made more complicated as a result of the finance team needing to work with the provider of the financial system, as this function had been outsourced to the third party provider.

Our interim reporting to members highlighted that some improvements had been made to working papers from the prior year, and this continued to some extent during the final accounts visit. There remain areas that still require substantial improvement to enable the audit visit to be completed efficiently and in line with the timescales set out. In particular, improved working papers are required when providing evidence for transaction testing. Officers are aware of the key improvements required for future years and we will continue to work with them to ensure a smoother closedown and audit process.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 26 July 2018 and followed this up with an update letter on 31 July 2018 confirming changes made since the Committee meeting.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 28 August 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 31 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Governance Committee on 26 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to use our additional powers under the Act for the current financial year.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice. We certified the audit as completed on 28 August 2018, following the completion of both our work on WGA and the pension fund annual report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

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

As part of our Audit Findings report agreed with the Council in 26 July 2018, we agreed recommendations to address our findings. We noted that the Council has a detailed action plan to respond to the Ofsted report, which continues to be monitored through a variety of mechanisms. Similarly a written response is required following the SEND inspection, which again will be monitored in due course, and therefore we have not made detailed recommendations in respect of these risks.

Similarly we have discussed our findings in relation to Commissioning with both the s151 officer and Chief Executive and understand that this is an area of focus for both of them in the current year, and therefore we have not made detailed recommendations in this area.

The financial environment faced by the authority remains challenging and as a result we have made the following recommendation;

- Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matters we identified in respect of Children's Services and Commissioning, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|--|
| <p>Children's Services</p> <ul style="list-style-type: none"> Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017 We will review the Council's response to the report and the progress made, including the plans for an Alternative Delivery Model | <ul style="list-style-type: none"> The Council have continued to work hard to implement the service improvement plan agreed with Ofsted. During the period under review there have been four separate monitoring visits by Ofsted. The outcome of the most recent was published in May 2018. This report concluded that the local authority is making progress in improving services for children and young people. Essex County Council were appointed as an improvement partner to the Council. Working in partnership they have undertaken a number of diagnostic visits. Their most recent report in February 2018 recognised the hard work that the Council had undertaken and the positive commitment from all levels. It also went on to highlight that there remains a significant number of areas where improvement is needed. On 19 September 2017 the Council were issued with a direction which required them to develop an options analysis for alternative models for provision of children's services. Following a full business case, the Council have approved the implementation of a wholly owned Council Company for the provision of Children's services, with an anticipated go-live date of 1 April 2019. In addition to the Ofsted visits for Children's Services, the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities (SEND). The outcome of the inspection was to require a written statement of action because of significant areas of weakness in the local area's practice. The Council is now working with NHS Worcestershire Clinical Commissioning Groups to produce and submit an action plan to Ofsted that details how they are going to improve the arrangements and address the weaknesses identified. | <p>While the Council is making progress in this area there still remains evidence of weaknesses in proper arrangements for Children's Services, and therefore we have issued an except for VFM conclusion.</p> |

Value for Money conclusion continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|---|
| <p>Financial Sustainability of the Council</p> <ul style="list-style-type: none"> The budget position for the Council in the medium term remains challenging with a funding gap of £23m identified in the next 3 years. This is in addition to savings already planned in 2018/19 of £31.6m We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees. | <ul style="list-style-type: none"> Historically the Council has a strong track record of meeting its financial targets, and this has continued in 2017/18 with a small surplus being delivered. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. The overspends reported in these services are £6m for adults and £8.3m for children's services and reflect the increased demand for services, but also the complexity of the care required. These overspends have been mitigated by the use of reserves and a number of one off measures, such as reviewing the policy on capitalisation of highways expenditures, reviewing the approach to the Minimum Revenue Provision and using surplus cash to fund a pre-payment on pension contributions in exchange for a discount. The 2017/18 budget included a savings target of £26.5m, £5.2m of which would be met from a planned use of reserves. Taking this into account and then adding unachieved savings from previous years the actual target for the year was £27.9m. The Council achieved savings of £19.1m, which equates to 68% of the target. This is a further deterioration from the savings achieved in prior years, with the Council achieving 74% of its savings target in 2016/17. The Council recognise that savings are becoming more difficult to achieve, and in July 2017 commissioned a review by CIPFA of their financial planning and sustainability. The key finding from the review was to challenge the achievability of savings plans. As a result a central review was undertaken by the finance team of the savings plans agreed and £6.1m of savings plans were effectively written off as unachievable, adding to the level of savings needed in 2018/19 and beyond. The s151 officer has assessed the level of reserves as appropriate as part of the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £84.4m of earmarked reserves. Removing earmarked reserves relating to schools and the public health grant leaves a balance of £64m. While these are set aside for specific purposes, they could be used in the short term to help balance the budget. This £64m equates to almost double the saving target for 2018/19 and is 20% of net expenditure for the Council. The 2018/19 budget includes a savings target of £31.6m. £15.4m of this savings plan related to accounting adjustments and alternative sources of funding and is therefore considered achievable. £9.7m related to existing reforms and the remaining £6.5m are new proposals which remain subject to review and challenge. Like many other similar local authorities, the financial outlook remains challenging. In addition to savings of £31.6m in 2018/19, further savings of £19.6m in 2019/20 and £14m in 2020/21 are needed to achieve a balanced budget. For 2018/19 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years. In recent years the Council has been able to compensate for non-achievement of savings targets through use of reserves and various one off measures. This is not a sustainable position. Difficult decisions will be needed going forward to ensure that the Council is able to meet its objectives and balance the budget. | <p>While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</p> |

Value for Money conclusion continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>The ability to produce accurate and timely financial reporting</p> <ul style="list-style-type: none"> The Council implemented a new financial system via an outsourced provider in April 2017. The implementation did not go to plan which impacted on the production and completion of the financial statements for 2016/17. We will review the arrangements for budget reporting in 2017/18 and the impact that the implementation of the financial system had on these arrangements. We will also consider the arrangements in place for the timely production of the 2017/18 financial statements. | <ul style="list-style-type: none"> It has been well documented that the implementation of the new financial system has created challenges across the Council. In particular there have been errors made in both payments to suppliers and in payments to staff. Officers reacted promptly to these issues, and there is no evidence of material loss to the Council as a result of the errors made, however as discussed on previous occasions this has resulted in officers' time being diverted from other key tasks, such as the preparation of the financial statements for 2016/17. We have reviewed the impact that the new financial system has had on the Council's ability to monitor its budget and ensure that a sound control environment remained in place. Overall, at a strategic level, arrangements for monitoring and reporting on budgets were unaffected by the problems with the implementation of the new system. There is clear evidence that on more detailed level, budget holders, particularly schools, struggled with the new system and how best to obtain the information that they had previously relied on. Again this has been recognised by the Council, with alternative arrangements being put in place in the short term, while longer term solutions of further training and support are implemented. A key aspect of the control environment in relation to the new financial system are reconciliations between the ledger and the other sub systems, in particular the bank reconciliation. There were delays in these reconciliations on inception of the new system, with the bank reconciliation for April 2017 not being completed in July 2017. There is evidence that this improved during the year, with key reconciliations being completed for the year end preparation of the financial statements. A further aspect of the control environment is the assurance given by internal audit. As anticipated the implementation of a new financial system was a key focus for the internal audit plan for 2017/18, with eight reviews scheduled. In addition to the work planned by the County Council's internal auditors, work was also scheduled by AuditWest, as the auditors of the Council's contractors, Liberata. As at the end of May, only one final report had been issued by Internal Audit, and there had been no reporting by the auditors of Liberata. While work has remained ongoing, this has resulted in a reduced level of assurance being provided than anticipated on the operation of the new financial system in the current financial year. As highlighted elsewhere in this AFR, the Council were able to produce financial statements for 2017/18 in line with their timetable for publication and draft accounts were provided for audit as anticipated. The new system has created some difficulties in terms of reporting, particularly understanding how information is presented and can be used. This has caused delays in the audit process, and in some areas created additional testing, the details of which are included as part of the earlier part of this report to avoid duplication. | <p>The Council has appropriate arrangements in place to produce accurate and timely financial reporting. There remain areas where improvements can be made in future years.</p> |

Value for Money conclusion continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|--|---|
| <p>Commissioning arrangements</p> <ul style="list-style-type: none"> The Council has outsourced a number of its key contracts during the last 12 months We will review the arrangements for outsourcing these contracts, and how they have been managed and monitored. | <ul style="list-style-type: none"> The Council have embraced the idea to be a commissioning Council, with over 75% of its services provided externally to the Council. In recent years a number of major contracts have been let, some of which have encountered severe delays and or disruption to services and members of the public. We considered the arrangements in place around these contracts, in particular, the Evesham Abbey Bridge replacement, Malvern Link Railway project, Bromsgrove Railway project, the Learning and Achievement contract with Babcock and the HR and Financial Services contract with Liberata. As these related to major contracts, the commissioning process has, not unexpectedly, spanned a number of years. In that time, the arrangements at the Council have changed, with the introduction of a Commissioning Toolkit, and a more centralised commissioning function. The introduction of the centralised commissioning function was as a result of the need to bring greater expertise and experience into this area and support the service departments commissioning the services. These arrangements have been developing during the period under which these contracts were let. In all but one of the contracts reviewed, Council officers have undertaken a review of the issues encountered during the procurement, often resulting in a 'lessons learned report' or limited assurance report from internal audit. These reports do not identify one persistent theme, or weakness in the arrangements. Instead they point to areas where contractors' assumptions could have been more robustly challenged, or where greater experience from the commissioning department could have led to better initial contract management. For the contracts we examined, the key driver for putting them out to tender was to fit with the agreed corporate objective to become a commissioning Council. As a result the potential disadvantages of providing these services from outside of the Council was not considered in reports to members. This remains consistent with our previous reporting on commissioning arrangements in 2014/15, where we highlighted that reports to members on the new operating model focused heavily on the potential advantages and savings that could be possible, but provided limited discussion on the risks and disadvantages. In all cases, the Council have acted positively and proactively to support the commissioning department, putting in extra resource to help rectify problems and minimise service disruption and delivery. This should however be the exception rather than the rule. While there is training available and guidance on the Council's intranet, the responsibility for the Commissioning of services lies with the individual service. There is no clear evidence that the lessons learned from major contracts are being considered and included in the appropriate training for officers engaged in procurement activity and as a result there remains a risk that further issues could be encountered with other major contracts. | <p>While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we have issued an except for VFM conclusion.</p> |

A. Reports issued and fees

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

Reports issued

| Report | Date issued |
|-----------------------|-------------|
| Audit Plan | March 2018 |
| Audit Findings Report | July 2018 |
| Annual Audit Letter | August 2018 |

Fees

| | Planned £ | Actual fees £ | 2016/17 fees £ |
|------------------------------------|----------------|------------------|-------------------|
| Statutory Council audit | 95,446 | 123,631 | 130,518 |
| Audit of Pension Fund | 24,963 | 30,163 | 24,963 |
| IAS 19 Assurance to other auditors | 1,193 | 1,193 | 1,193 |
| Total fees | 121,602 | 154,987 | 156,674 |

The fee variation for IAS 19 takes account of the work we are required to undertake for admitted bodies within the PSAA regime.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted we have needed to undertake additional work as a result of the challenges of the reporting from the new financial system, and as a result of the quality of the working papers initially provided. We have also encountered significant issues with the valuations of property, plant and equipment, which has resulted in additional time needed to complete the audit. We have discussed an additional fee with the Chief Finance Officer, and this has been included within the actual fees column above. This is subject to agreement from PSAA.

Fees for non-audit services

| Service | Fees £ |
|-----------------------------------|--------|
| Audit related services | |
| - TPA certification (2017/18) | 4,200 |
| Non-Audit related services | |
| - CFO insights subscription | 12,500 |





Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.




The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Action plan

We have identified four recommendations for the Council 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 2018/19 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 |
|---|--|--|
|  | The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a more timely and efficient manner. | <p>Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Officers will be working with Liberata over the coming months to address all of the issues identified at audit. |
|  | Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process. | <p>The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Finance Leadership will be reviewing steps to improve working papers and holding discussions with external audit early in 2019. |
|  | Property, plant and equipment. The Council use an external valuer to value property, plant and equipment at year end. While a significant proportion of the assets had been valued at the year end, there remained a material uncertainty at year end over the value of assets that hadn't been revalued. There was no evidence of challenge of the work of the valuer by the finance team, which resulted in additional work needed by the finance team, the valuer and the audit team. | <p>Instructions to the valuer need to be clearly communicated, and there needs to be evidence that the output from the valuer has been reviewed for reasonableness and compliance with the initial instructions. Where asset movements are out of line with finance officers' expectations, there should be evidence that these movements are clearly understood, and consideration given as to how these valuations would impact on any assets that have not been valued in year.</p> <p>Officers need to provide a clear working paper demonstrating that assets that haven't been revalued in year are not materially misstated.</p> <p>Management response</p> <p>Agreed. Finance Leadership will be addressing all valuation and working paper issues identified at audit and will look to provide earlier closedown of capital for 2018/19.</p> |
|  | VFM – Financial Sustainability | <p>Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Senior leadership will continue to review the Council's financial sustainability on a frequent basis and direct resources and actions accordingly. These will be reported to councilors on a regular and prompt basis, with inclusions of decisions for action. |

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice



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