# The Annual Audit Letter for Worcestershire County Council and Pension Fund

Year ended 31 March 2020

February 2021

# Contents

**Your key Grant Thornton team members are:**

**Peter Barber**
Director
T: 0117 305 7897
E: peter.a.barber@uk.gt.com

**Helen Lillington**
Senior Manager
T: 0121 232 5312
E: helen.m.Lillington@uk.gt.com

**Meriel Clementson**
Assistant Manager
T: 0121 232 5436
E: meriel.h.clementson@uk.gt.com

# 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) and its subsidiary (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group 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 2nd October 2020

### 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 and group's 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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

### Our work

| | |
|---|---|
| **Materiality** | We determined materiality for the audit of the group's financial statements to be £11.8m, which is 1.5% of the group's gross expenditure.  We determined materiality for the audit of the Council's financial statements to be £11.6m, which is 1.5% of the Council's gross expenditure. We determined materiality for the audit of the Pension Fund financial statements to be £26.3m, which is 1% of total net assets. |
| **Financial Statements opinion** | We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 27 October 2020. We gave an unqualified opinion on the pension fund financial statements on 27 October 2020. |
| **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. |
| **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. We reflected this in our audit report to the Council on 27 October 2020 |
| **Certificate** | We certified that we have completed the audit of the financial statements of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice on 1 February 2021. |

### Working with the Council

The outbreak of the Covid-19 pandemic has had a significant impact on the normal operations of the Council and the group.  This has been felt particularly in Adult and Children Services, however the Council has worked hard to ensure it remains financially sustainable.

The Council have adapted well to delivering in a remote environment, and we have worked with the finance team to deliver the audit under remote auditing arrangements. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the group'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 group financial statements to be £11.8m, which is 1.5% of the group's gross expenditure. We determined materiality for the audit of the Council's financial statements to be £11.6m, which is 1.5% of the Council's gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We determined materiality for the audit of the Pension Fund's financial statements to be £26.3 million, which is 1% of the total net assets. We used this benchmark as, in our view, the users of the Pension Fund's financial statements are most interested in where the Fund has invested the monies necessary to cover future pension obligations

We also set a lower level of specific materiality of £13k for senior officer remuneration due to its sensitive nature.

We set a lower threshold of £600k for the group, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### 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 to check it is 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 was based on a thorough understanding of the group'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 Financial Statements (Council)

## 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 |
|---|---|---|
| **Covid– 19**<br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to;<br>• Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation<br>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates<br>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>• Disclosures within the financial statements will required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. | As part of our audit work we have:<br>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for on our audit approach. No changes were made to materiality levels previously reported. The draft financial statements were provided on 5 June 2020;<br>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose.<br>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;<br>• evaluated whether sufficient audit evidence could be obtained through remote technology;<br>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances;<br>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;<br>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. | Our audit work has not identified any significant issues in respect of Covid-19 specific risks. The Council responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years. We are aware that nationally, this is one of the first set of draft financial statements produced and audited. |

# Audit of the Financial Statements (Council)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **The revenue cycle includes fraudulent transactions (rebutted)**<br>**This risk relates to the Group and Authority**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable. | As part of our audit work we have:<br>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 Pension Fund. | Our audit work has not identified any issues in respect of improper revenue recognition. |
| **Management override of controls**<br>**This risk relates to the Group and Authority**<br>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.<br>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. | As part of our audit work we have:<br>• Evaluated the design effectiveness of management controls over journals,<br>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals,<br>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration,<br>• Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. | Our audit work has not identified any issues in respect of management override of controls. |

# Audit of the Financial Statements (Council)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
| --- | --- | --- |
| **Valuation of land and buildings**<br>**This risk relates to the Authority only**<br>The Authority revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£510.3m at 31.3.20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.<br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement. | As part of our audit work we have:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• Evaluated the competence, capabilities and objectivity of the Council's valuation expert<br>• Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding<br>• Engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation<br>• Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register<br>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. | Our audit work has not identified any issues in respect of valuation of land and buildings.<br>We included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding asset valuations at year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in the final valuation report. Officers reflected this in note 15.10 of the financial statements. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements. This is in line with other similar local authorities.<br>The additional scrutiny in this area generated a significant volume of queries in this area, and officers were requested to provide further information on how assumptions used could be supported and were appropriate to the circumstances of the Authority. These were all resolved to a satisfactory conclusion. The work from our own valuation expert did not raise any concerns that need to be reported. |

# Audit of the Financial Statements (Council)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Valuation of pension fund net liability**<br>**This risk relates to the Group and Authority**<br>The Authority'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 and group accounts.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£465 million in the Authority's balance sheet at 31.3.19) and the sensitivity of the estimate to changes in key assumptions. | As part of our audit work we have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation<br>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability<br>• 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<br>• undertaken 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; and<br>• obtained assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. | Our audit work has not identified any issues in respect of valuation of the net liability. |

# Audit of the Financial Statements (Council)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Preparation of group accounts**<br>**This risk relates to the Group and the Authority**<br>Following the transfer of services to the wholly owned subsidiary Worcestershire Children First, the Authority now has a group structure that management believe is likely to require consolidation for the first time.<br><br>There are a number of logistical challenges that need to be managed, ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the arrangements to provide the output of their work in accordance with the closedown timetable. | As part of our audit work we have:<br>• Reviewed consolidation procedures in place at the Authority, and the Authority's assessment of all entities over which the Authority has control or significant influence and the Authority's subsequent consideration whether or not to consolidate each entity within the group accounts;<br>• Liaised formally with group auditors to enable us to make use of the outcomes of their audit (including their opinion) for our audit opinion on the Authority's group accounts; and<br>• Agreed the final accounts consolidation back to audited financial statements for each subsidiary and joint venture within the group accounts. | Our audit work has not identified any issues in respect of the preparation of group accounts. |

# Audit of the Financial Statements (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 |
|---|---|---|
| **Covid-19**<br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to;<br>• Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation<br>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and the reliability of evidence we can obtain to corroborate management estimates<br>• For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification if the instruments of trading may have reduced to such and extent that quoted prices are not readily and regularly available and therefore do no represent actual and regularly occurring market transactions.<br>• Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. | As part of our audit work we completed;<br>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 17 May 2020;<br>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose.<br>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. Including management' assessment of the impact of Covid 19 upon forecast cashflows<br>• evaluated whether sufficient audit evidence could be obtained using alternative approaches for the purposes of our audit while working remotely;<br>• Evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure<br>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as level 3 asset valuations;<br>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;<br>• discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence. | Our audit work has not identified any issues in respect of Covid-19 specific risks. The Fund responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years. As explained on page 9 we have concluded that a material uncertainty does not exist in respect of property and infrastructure assets held by the Fund. |

# Audit of the Financial Statements (Pension Fund)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
| --- | --- | --- |
| **The revenue cycle includes fraudulent transactions (rebutted)**<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br><br>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Worcestershire Pension Fund, mean that all forms of fraud are seen as unacceptable<br><br>Therefore we do not consider this to be a significant risk for Worcestershire Pension Fund. | As part of our audit work we completed;<br><br>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 Pension Fund.<br><br>Our audit work has not identified any issues in respect of improper revenue recognition. | Our audit work has not identified any issues in respect of improper revenue recognition. |
| **Management override of controls**<br><br>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<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk. | As part of our audit work we completed;<br>• Evaluated the design effectiveness of management controls over journals,<br>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals,<br>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration,<br>• Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. | Our testing of estimates, judgements and journals have not identified any evidenced of management override of controls. |

# Audit of the Financial Statements (Pension Fund)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Valuation of Level 3 investments**<br>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.<br><br>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent 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<br><br>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.<br><br>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.<br>We therefore identified valuation of Level 3 investments as a significant risk. | As part of our audit work we completed;<br>• evaluated management's processes for valuing Level 3 investments<br>• 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; to ensure that the requirements of the Code are met<br>• independently requested year-end confirmations from investment managers and custodians<br>• 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 date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period<br>• in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert<br>• tested revaluations made during the year to see if they had been input correctly<br>• where available, reviewed investment manager service auditor report on design effectiveness of internal controls.<br>As highlighted above, our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts. We identified that the management estimate of investment values at year end is £6.2m higher than more recently updated information.  Given that our headline materiality is £26.3m, we are comfortable that these differences do not present a risk of material misstatement of the fair value of your investments. The differences identified do not indicate any weakness in management's arrangements for estimating investment values at year end. | Our audit work has not identified any significant issues in relation to the risk identified. |

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the group's financial statements on 27 October 2020.

## Preparation of the financial statements

The draft financial statements were presented for audit to the agreed timetable on the 5 June 2020. The statements were supported, in the main, by good quality working papers and we received prompt responses to our queries, given the circumstances. This continues the positive trajectory of improvements in the quality of the accounts and working papers from previous years. The significant number of issues arising in respect of Property, Plant and Equipment this year is down, in no small part, to the complexities of your Asset Register.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit and Governance Committee on 2 October 2020. We identified no material errors or adjustments to the financial statements.

There were, however, significant amendments to the presentation of the notes in relation to Property, Plant and Equipment.. We have also raised recommendations for management as a result of our audit work, the most significant of which is included below;

- Officers should continue their focus on improving working papers. As in prior years PPE working papers remain those where greatest improvement is needed. Officers should give consideration to whether the current fixed asset register provides information in the most fit for purpose way to produce the disclosures in the financial statements and provide them with suitable management information.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in November 2020.

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.

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 27 October 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Governance Committee on 2 October 2020.

We identified no material errors or adjustments to the pension fund financial statements. We have identified one adjustment of £10.3m that has resulted in a change to the Pension Fund's reported financial position for the year ended 31 March 2020. We also recommended a small number of other adjustments to improve the presentation of the financial statements.

## Whole of Government Accounts (WGA)

We carried out work 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 January 2021.

## 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 exercised these powers during 2019/20.

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice on 1 February 2021.

# Value for Money conclusion (Council only)

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in October 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

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 2020.

# Value for Money conclusion

## Value for Money Risks

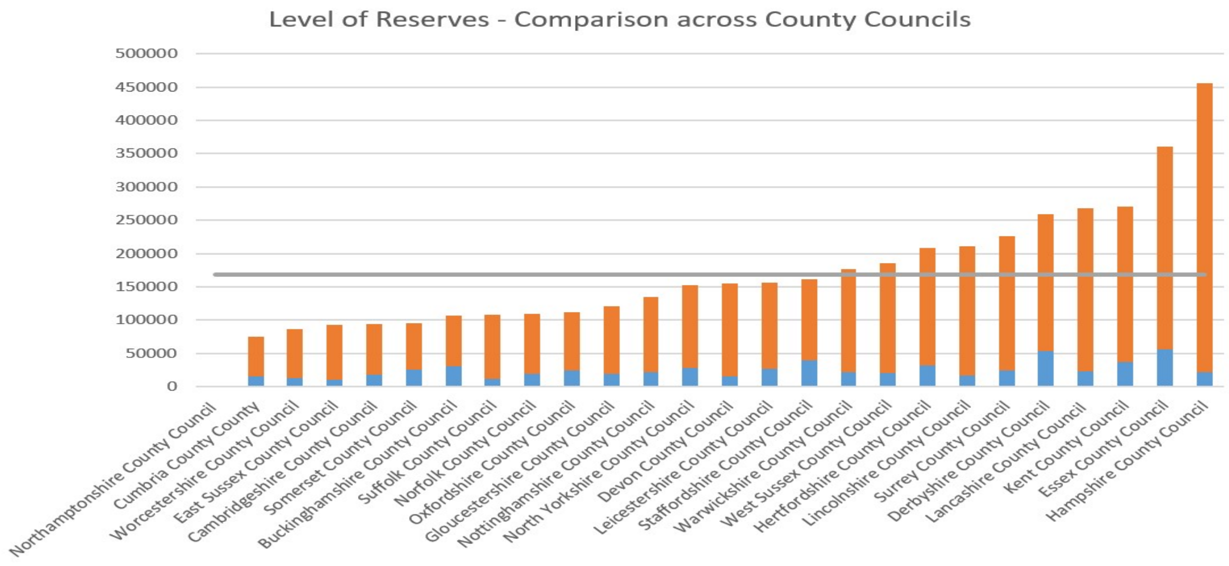
| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Future Financial Sustainability**<br>Like many other similar local authorities, the financial outlook remains challenging. At Month 8, the Council was forecasting a £3.6 million overspend (1% of the budget).The main area of pressure remains within key demand led services in both adult and children services. In addition pressures have been identified in the current year as a result of the timing of the delivery of the proposed redesign efficiencies.<br>We will:<br>• review the Council's performance against budget for 2019/20<br>• understand the future savings plans and the achievement of savings in 2019/20<br>• review the robustness of assumptions in the latest MTFS. | As part of our work we have:<br>• Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council have delivered a small deficit of £0.3m compared to a net budget requirement of £330m. This position was only achieved via close monitoring and appropriate management action in year to identify new savings and mitigations to compensate for the fact that not all savings as planned were achieved in year. In addition, it should be noted that this position was achieved with the planned use of reserves, which can only be used once. 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.<br>• Whilst the final overall outturn was a £0.3m overspend, this masks overspends in the demand lead areas, although these were not as significant as in prior years. The most significant overspend related to adult services, who reported a £1.6m overspend on a budget of £126m. This compares to an overspend of £12.4m in the prior year. The overspend in adult services had been highlighted as part of the budget monitoring throughout the year, and therefore at outturn was in line with revised expectations, further demonstrating officers understanding of the pressures facing the budget and reporting them appropriately. Overspends have been mitigated by savings in other areas, most notably Community Services and Economy and Infrastructure.<br>• Like many other local authorities, the funding for schools remains a significant challenge. The total schools balances position at year end was a net surplus of £1.4m, a reduction of £4.2m from the prior year. While the Council has plans in place to support the schools in deficit, this reflects the difficulties many schools are having in balancing their budgets.<br>• Dedicated Schools Grant (DSG) continues to be an area for concern, with a cost pressure of £8.7m for high needs. Other areas of DSG funding have underspent to reduce this pressure, however, the net position finished at a £5.6m in-year deficit, increasing the cumulative deficit position to £6.2m. Officers are continuing to lobby central government for a sustainable solution, however at present this deficit represents a call on general fund balances or the need to find further savings from elsewhere in the budget to support this position. | |

# Value for Money conclusion

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Future Financial Sustainability continued** | • The original savings target included in the 2019/20 budget was £23m. A further review identified additional growth of £5m was needed and this gave a revised target for savings of £28.1m, of which £15.8m has been achieved. (43.8% not achieved). Of the £12.3m not achieved £7.2m has been dealt with through resetting of the base budget in 2020/21, £3.8m of waste savings have been managed through the waste reserve, and the remaining £1.3m has been carried forward to the next financial year.<br>• The budget for 2020/21 was set in February 2020. The process considered the amount of income the Council was likely to receive, as well as considering the additional pressures on expenditure. The pressures of both pay and contract inflation were considered as well as the considerations for demand led growth. In addition, the achievability of savings plans was considered, and where appropriate these plans were rebased. Prior to the impact of Covid 19, the Council was predicting funding gaps of £8.2m and £15.8m in the years 2021/22 and 2022/23.<br>• The s151 officer has assessed the level of reserves as appropriate at 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 £76.3m in earmarked reserves. Removing balances relating to schools of £1.4m and a further £3.2m where the reserves could not be used to support spend, gives an earmarked position of £71.6m which could be used to support services if required. This equates to over 7 times the level of savings needed in 2020/21 and 22% of the budget requirement.<br>• Comparing these reserve balances with other County Council draft financial statements, Worcestershire is towards the bottom end of the scale, with only two other County Councils having a lower level of combined general fund and earmarked reserves (when excluding schools). This is demonstrated in the graph on the next page. | |

# Value for Money conclusion

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th><th>Findings and conclusions</th></tr>
<tr><td>Future Financial Sustainability continued</td><td>




Like many other similar local authorities, the financial outlook remains challenging. Prior to the impact of Covid 19, the Council was predicting funding gaps of £8.2m and £15.8m in the years 2021/22 and 2022/23. The impact of Covid-19 continues to be modelled on a regular basis, with the latest forecast suggesting that this would have an impact of £8.1m for 2020/21, which would need to be financed from a mixture of savings and transfers from reserves. The position remains under constant review, with officers committed to update the MTFP prior to the next budget setting round.

</td><td>

- While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.
- We have concluded that you had good arrangements in place to set a realistic and achievable budget for 2019/20.
- We do, however, recognise that not all savings were delivered in 2019/20 and although the initial 2020/21 budget was predicated on a lower level of savings, Covid-19 has made reliable financial planning into the medium term more challenging.
- We have concluded that the Council has responded appropriately to the impact of Covid-19 on its medium term financial planning. The Council recognises the inherent risk due to this and the combination of increased demand for services, increased unit costs, greater expectation and continued austerity. Whilst balances and reserves are adequate we note that Worcestershire County Council has less earmarked reserves that the majority of its peers.
- Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

</td></tr>
</table>

# A. Reports issued and fees Worcestershire County Council

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 | 13 March 2020 |
| Audit Findings Report | 2 October 2020 |
| Annual Audit Letter | February 2021 |

### Proposed final fees for the audit.

| Audit fees | Proposed fee |
|---|---|
| County Council scale fee | £73,493 |
| Additional proposed audit fee at planning stage | £17,650 |
| Total proposed audit fees (excluding VAT) at planning | £91,143 |
| Further additional fees proposed at completion | £13,750 |
| Total proposed audit fees (excluding VAT) on completion | £104,893 |

### Fees for non-audit services

| Service | Fees £ |
|---|---|
| **Audit related services**<br>- Certification of teachers' pension return | £4,500 |
| **Non-Audit related services**<br>-CFO Insights | £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 group. 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 group's auditor and have ensured that appropriate safeguards are put in place.

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

The Worcestershire County Council Audit Plan presented in March included £17,650 of proposed additional fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid -19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £13,750 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £104,893, a breakdown of which is on the next page.

This further charge has not been entered into lightly, but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. We have been discussing this issue with PSAA over the last few months and not these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectations that audit standards remain high and of additional work needed across all audits.
Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

# A. Reports issued and fees Worcestershire County Council

**Breakdown of proposed final audit fee**

| Audit area | £ | Reason for fee variation |
|---|---|---|
| **Scale fee** | 73,493 | |
| Pensions – valuation (IAS 19) | 3,500 | We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. |
| PPE Valuation – work of experts | 9,350 | We have engaged our own audit expert – Wilks Head and Eve LLP and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000. |
| New accounting standards/developments | 1,800 | Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in. |
| Group accounts | 3,000 | Following the transfer of services to the wholly owned subsidiary for Worcestershire Children First, the Authority now has a group structure that management have assessed as requiring consolidation for the first time. This represents a significant and complex accounting transaction and therefore we deem this to represent a significant risk in 2019/20. |
| **Revised planning fee** | 91,143 | |
| Covid-19 | 13,750 | Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes;<br>• Revisiting planning – we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS 1 particularly in respect of material uncertainties.<br>• Management's assumptions and estimates – there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.<br>• Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA 260. |

# A. Reports issued and fees Worcestershire County Council

**Breakdown of proposed final audit fee (continued)**

| Audit area | £ | Reason for fee variation |
| --- | --- | --- |
| Covid-19 | | • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including management around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. |
| **Total proposed audit fees on completion** | 104,893 | |

# B. Reports issued and fees Worcestershire Pension Fund

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 | 13 March 2020 |
| Audit Findings Report | 2 October 2020 |
| Annual Audit Letter | February 2021 |

### Proposed final fees for the audit.

| Audit fees | Proposed fee |
|---|---|
| Pension Fund scale fee | £19,222 |
| Additional proposed audit fee at planning stage | £4,250 |
| Total proposed audit fees (excluding VAT) at planning | £23,743 |
| Further additional fees proposed at completion | £6,000 |
| Total proposed audit fees (excluding VAT) on completion | £29,743 |

### Fees for non-audit services

| Service | Fees £ |
|---|---|
| **Audit related services**<br>- IAS 19 assurance letters to other auditors | £8,500 |

### Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. 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 group's auditor and have ensured that appropriate safeguards are put in place.

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

The Worcestershire Pension Fund Audit Plan presented in March included £4,250 of proposed additional fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid -19 and engaged our own auditors valuation expert to provide further assurance over your derivative disclosures. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £29,743, a breakdown of which is on the next page.

This further charge has not been entered into lightly, but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. We have been discussing this issue with PSAA over the last few months and not these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectations that audit standards remain high and of additional work needed across all audits.
Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

# B. Reports issued and fees Worcestershire Pension Fund

### Breakdown of proposed final audit fee

| Audit area | £ | Reason for fee variation |
|---|---|---|
| **Scale fee** | 19,222 | |
| Raising the bar | 2,500 | The Financial Reporting council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. |
| Valuation of level 3 investments | 1,750 | The FRC has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investment this year to reflect the expectations of the FRC and ensure we issue a safe opinion. |
| **Revised planning fee** | 23,743 | |
| Auditor's expert - valuation | 2,000 | As part of our audit work on investments we used, for the first time this year, our internal valuations team to provide assurance over the fair value of your derivatives. |
| Covid-19 | 4,000 | Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes;<br>• Revisiting planning – we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS 1 particularly in respect of material uncertainties.<br>• Management's assumptions and estimates – there is increased uncertainty over many estimates including investment valuations.<br>• Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. |
| **Total proposed audit fees on completion.** | 29,743 | |