

**SUPPLEMENT TO THE AGENDA FOR**

# **Audit and Governance Committee**

**Wednesday 25 September 2013**

**11.00 am**

**The Library, The Shire Hall, Hereford**

**5. AUDIT FINDING REPORT**

**Pages**

**3 - 36**





# The Audit Findings for Herefordshire Council

**Year ended 31 March 2013**

20 September 2013

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**AGENDA ITEM 5**

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section 1: Executive summary

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# Executive summary

## **Purpose of this report**

This report highlights the key issues affecting the results of Herefordshire Council (the Council) and the preparation of the Council's financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

## **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 5 March 2013.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements

- obtaining and reviewing the management letter of representation
- considering any questions or objections from members of the public during the accounts inspection period and
- updating our post balance sheet events review, to the date of signing the opinion.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts (WGA) consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on the value for money conclusion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues** **Financial statements opinion**

We identified some adjustments to the accounts presented to audit which Officers have agreed to adjust for. None of these adjustments affected the Balance Sheet or the cost of services in the Comprehensive Income and Expenditure Statement. We have also requested some adjustments to improve the presentation of the accounts, the most significant of which are set out in section two.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts were of a good quality helped by a robust quality review process. This was a clear improvement on the previous year.
- the audit identified fewer errors than in previous years. Importantly we did not identify any material misstatements
- working papers and response times were an improvement on previous years. We will continue to work alongside the Council and Hoople to ensure continued improvement in this area to achieve good practice standards.

Further details are set out in section 2 of this report.

#### **Value for money conclusion**

We are proposing to issue an except for qualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. Whilst the Council's arrangements are generally sound, the arrangements to safeguard children were judged by Ofsted as being inadequate. The Council has put in place an Action Plan which seeks to address the issues identified by Ofsted.

Further detail of our work on Value for Money including important issues in relation to the £5.9 million Adult Social Care overspend in 2012/13 and the "inadequate" Ofsted assessment of the Council's arrangements for safeguarding for children last September is set out in section 3 of this report.

#### **Whole of Government Accounts (WGA)**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts. Following completion of this work, and subject to the outstanding matters referred to on this page, including questions and objections from members of the public, we expect to conclude our reporting shortly.

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### **Findings**

We draw your attention to one control issue to consider in relation to journal processing.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Officer-Finance and Commercial Services.

We have made a number of recommendations, which are set out in the action plan. Recommendations have been discussed and agreed with officers.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**September 2013**



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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Appendix A: Action plan

## Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to alter or change our Audit Plan dated March 5.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Cost of services- housing and council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Payments to Housing Capital Receipts Pool	Property Plant and Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant & other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	<b>Risks identified in our audit plan</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
1.	<p><b>Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</p>	<ul style="list-style-type: none"> <li>- review and testing of revenue recognition policies</li> <li>- performance of attribute testing on material revenue streams</li> <li>- review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b> Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>- review of accounting estimates, judgements and decisions made by management</li> <li>- testing of journals entries</li> <li>- review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular our testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Testing of key controls</li> <li>• Substantive testing of expenses</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Testing of key controls</li> <li>• Substantive testing of expenses</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Employee remuneration</b>	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Substantive testing of remuneration expenses</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified



## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, Plant &amp; Equipment</b>	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Substantive testing of expenditure</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Property, Plant &amp; Equipment</b>	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Substantive testing of expenditure</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Substantive testing of expenditure</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified



# Accounting policies, Estimates & Judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The Council's policy on revenue recognition is included in the Statement of Accounts</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>Minimal judgement is involved</li> <li>Accounting policy is properly disclosed</li> </ul>	 <p><b>Green</b></p>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>Useful life of capital equipment</li> <li>pension fund valuations and settlements</li> <li>Revaluations</li> <li>impairments</li> <li>Provisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the Local Government Code of Accounting Practice</li> <li>Reliance on experts is taken where appropriate</li> <li>Accounting Policy is properly disclosed</li> <li>Our testing of a sample of revaluations put through in 2012/13 identified upward revaluations in relation to the Rotherwas Industrial Estate (following the creation of an enterprise zone) and two car parks. Discussions with the Valuer indicated that these revaluations had mainly occurred in 2011/12. In response, the Council considered whether it should re-state the opening balances and concluded that it was not appropriate as the amounts involved were not material. We have considered the Council's decision and are not minded to challenge this assessment.</li> </ul>	 <p><b>Green</b></p>

## Accounting policies, Estimates & Judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>The Council has adopted accounting policies in accordance with the Local Government Code of Accounting Practice</li> </ul>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the Local Government Code of Accounting Practice and do not have any comments to make.</li> </ul>	 <b>Green</b>

## Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

There was only one adjusted misstatements which is set out in detail below along with the impact on the key statements.

Detail	Statements/Notes effected
<p>1 Some non material changes were made to the analysis between various service expenditure heads on the Comprehensive Income and Expenditure Statement to better reflect guidance in the Local Authority Accounting Code. The Council alerted us early in the audit that it was not fully content with the analysis in the draft accounts for audit. This had no impact on the total cost of services. The Council has also revised comparative figures from previous years and added a short explanatory commentary.</p>	<p>Comprehensive Income and Expenditure Statement</p>

## Misclassifications & disclosure changes

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

Adjustment type	Account balance	Impact on the financial statements
1 Disclosure	Annual Governance Statement	Amended the Annual Governance statement to mention Ofsted inspection of safeguarding, and the response to date.
2 Disclosure	Note 8.34	Corrected council tax and housing benefit grant received in 2012/13.
3 Disclosure	Note 8.37	The operating lease disclosures were revised to include future full minimum lease payments and the amounts were also recalculated where the Authority was the lessor.
4 Disclosure	Note 8.41	Additional disclosures were made regarding pension strain accrual in 2012/13 in relation to exit packages.
5 Disclosure	Note 8.4	Additional disclosure were made regarding the pensions liability based on Code Practitioner Guidance Notes
6 Disclosure	Note 8.29	The CNS Complex Needs Solution pooled budget note was revised to confirm a net surplus during the year, as opposed to a net deficit. The same applied to the Blanchworth contract in Kington.

## Unadjusted misstatements


We are pleased to note that there are no significant unadjusted misstatements

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	<b>Assessment</b>	<b>Issue and risk</b>	<b>Recommendations</b>
1.		<p>There are limited controls over processing of journals. All accountants can input journals in any service area and without any financial limits and there is no authorisation of journals. There are compensating controls such as the daily review of unusual transactions and the restriction of posting to ledger codes only and not for example to debtor or creditor ledgers and this reduces the risk of fraud. We also identified some missing journal reference numbers for which the Council had no explanation.</p>	<p>Review the full suite of controls over journals to reduce the likelihood of fraud and error</p>

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

Issue	Commentary
1. Matters in relation to fraud	<ul style="list-style-type: none"> <li>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2. Matters in relation to related parties	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions.</li> </ul>
3. Matters in relation to laws and regulations	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
4. Written representations	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5. Disclosures	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
6. Going concern	<ul style="list-style-type: none"> <li>Our work has not identified any indication that the accounts should not be prepared on a going concern basis.</li> </ul>

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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience.**

The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Our overall conclusion is that the Council faces significant challenges, particularly in relation to Adult Social Care where a large overspend occurred in 2012/13 and a further overspend is forecast in 2013/14 putting additional pressure on the Council's balances, which are comparatively low. It has proper arrangements in place for securing financial resilience and in particular, we consider the Council has a comprehensive medium term financial plan. It has also strengthened budget setting and monitoring arrangements .

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints within which it is required to operate and whether it has improved productivity and delivered cost efficiencies.

Our work concentrated on how the Council has delivered its savings programme for 2012/13 and its plans for delivering savings over the next two years.

Our overall conclusion is that although the Council is facing up to the challenges of the Local Government Finance Settlement and there has been some success in delivering savings over the last two years, the Council still faces significant challenges in particular in relation to delivering Adult Social Care within budget. In addition the Council received an inadequate assessment from Ofsted last October in relation to its arrangements to safeguard children arrangements. It has subsequently been working hard through its Improvement Board to address the issues raised.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are proposing to issue an except for qualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. Whilst the Council's arrangements are generally sound, the arrangements to safeguard children were judged by Ofsted as being inadequate. The Council has put in place an Action Plan which seeks to address the issues identified by Ofsted.

To support our VFM conclusion against the specified criteria we performed a risk assessment against VFM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VFM conclusion:

<b>Residual Risk identified</b>	<b>Assurances obtained</b>	<b>Conclusion on residual risk</b>
<p>Adult Social Care budget</p>	<p>For several years the Adult Social Care budget has been overspent and the overspends have continued to rise each year, in part due to the practice of adding undelivered savings from one year into the budget for the following year. In 2012/13 the budget was overspent by £5.9m and this contributed to the Council overspending by £1.4m overall. The main reason for the overspend was the failure to deliver very ambitious savings targets. Review of the undelivered savings schemes shows that some schemes were unrealistic or were cost avoidance schemes which would only reduce additional demand for services. This indicates that the scrutiny and sign off process in relation to proposed savings schemes, particularly in relation to Adult Social Care, should be improved in order to ensure savings are delivered by the directorate.</p> <p>The final budget outturn in 2012/13 was an improvement on that forecast to Cabinet earlier in the year, due in part to action taken to reduce expenditure but also due to the fact that the in-year forecast was inflated by client costs which were no longer valid. A lot of work has been undertaken to cleanse data contained in these forecasts but further improvement is needed. The Council also needs to establish a working commitment accounting system in Adult Social Care so that managers have a better understanding of the financial consequence of decisions made; a point made by external auditors four years ago.</p> <p>The Council has strengthened its budget setting processes for 2014/15 following previous external audit criticisms including the use of zero-based budgeting. However early in 2013/14, the Council discovered that it had counted grant income of £3.8m twice. The response was swift and appropriate from the Section 151 Officer and a Special Council Meeting was called to address the issue. He asked Internal Audit to investigate the issue and their report attributed the problems to human error. The Council consequently needs to tighten the controls over the budget setting process to prevent such problems re-occurring</p>	<p>We have concluded that we will not qualify the VFM conclusion on account of this residual risk. However there remains much still to be done. In particular the Council needs to</p> <ul style="list-style-type: none"> <li>• Develop a plan to address the forecast deficit in 2013/14</li> <li>• Continue to improve the forecasting of the outturn of Adult Social Care expenditure.</li> <li>• Further develop the review of the budget setting process.</li> <li>• Continue to monitor progress on the transformation of the delivery of Adult Social Care</li> <li>• Challenge savings plans before including them in the programme and then monitor delivery closely</li> <li>• Ensure commitment accounting in Adult Social Care is delivered</li> <li>• Continue to reshape the Council's priorities to ensure that key services can be sustainably delivered in the future.</li> <li>• Develop a contingency in the budget or reserve to deal with undelivered savings</li> </ul>

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Adult Social Care budget (continued)</p>	<p>In 2013/14 Adult Social Care is currently forecasting a deficit of £4m, which is a smaller deficit than previous years, but will still put a significant strain on the Council's finances. The Council has lower reserves than other similar councils and is at its target reserves level for the General Fund reserve. Therefore, a significant overspend will be a challenge for the Council at a time when further reductions are expected to central government funding. It is important that the Council draws up plans to address the forecast deficit in 2013/14.</p> <p>The Council now appears to be giving greater priority to carrying out the reforms to Adult Social Care delivery needed to achieve a balanced budget but this will take some time to deliver. It is also taking steps to ensure greater stability in senior management in this key area. In the longer run, the Council faces some difficult decisions about the future role of the Council in order that high priority statutory services such as social care can be delivered.</p>	
<p>Safeguarding Children</p>	<p>An announced inspection by Ofsted of the Council's arrangements to safeguard children was carried out in September 2012 and these arrangements were assessed overall as "inadequate" across all three Ofsted review categories. An improvement notice was issued by the Parliamentary Under Secretary of State in February. The Council drew up an improvement plan in October and set up a multi agency Improvement Board with an independent Chairman. The Council has made several significant changes to address the issues set out in the Ofsted report and there has been regular reporting on progress against the Improvement Plan, including a report to Cabinet in September. However there is still much to do, not least in addressing the large number of temporary staff employed in key posts. The Council has stated that it hopes to achieve an adequate assessment in the 2014/15 year.</p>	<p>We have concluded that an "except for" qualified conclusion is appropriate based on the residual risk. The Council needs to ensure it continues to closely monitor the delivery of the Improvement Plan for Safeguarding Children.</p>

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## Section 4: Fees, non audit services and independence

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## Fees, non audit services and independence

We confirm below our final fees charged for the audit.

<b>Fees</b>	<b>Per Audit plan £</b>	<b>Actual fees £</b>
Council audit	164,803	164,803
Grant certification – Indicative fee	10,600	10,600
<b>Total audit fees</b>	<b>175,403</b>	<b>175,403</b>

### Fees for other services

<b>Service</b>	<b>Fees £</b>
None	Nil

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- The spouse of one of our audit team occasionally works as a supply teacher in Worcestershire schools. We have and will continue to ensure that this auditor does not undertake any audit work in related areas.

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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices



## Appendix A: Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Review the full suite of controls over journals to reduce the likelihood of fraud and error	Medium		
2	Develop a plan to address the forecast deficit in 2013/14	High		
3	Continue to improve the forecasting of the outturn of Adult Social Care expenditure	Medium		
4	Further develop the review of the budget setting process	Medium		
5	Continue to monitor progress on the transformation of the delivery of Adult Social Care	High		
6	Challenge savings plans before including them in the programme and then monitor delivery closely	High		

## Action Plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
7	Ensure commitment accounting in Adult Social Care is delivered	Medium		
8	Continue to reshape the Council's priorities to ensure that key services can be sustainably delivered in the future.	High		
9	Develop a contingency in the budget or reserve to deal with undelivered savings	Medium		
10	The Council needs to ensure it continues to closely monitor the delivery of the Improvement Plan for Safeguarding Children.	High		



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