

Supplement to the agenda for

Audit and governance committee

Tuesday 30 July 2019

10.00 am

**The Council Chamber, The Shire Hall, St. Peter's Square,
Hereford, HR1 2HX**

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| 9. EXTERNAL AUDIT FINDINGS REPORT - 2018/19 STATEMENT OF ACCOUNTS | 3 - 32 |

Supplementary Paper

Following the substantial completion of the external audit work on the 2018/19 statement of accounts an updated audit findings report is attached. This has been updated as follows as does not change the recommendation in the covering report:-

1. **Management override of controls** (page 5). The external audit work is now completed and has identified that there is no authorisation process in place over the journals posted. The systems put in place by the Council do restrict who can post journals, but there is no authorisation once these are posted, this has resulted in a recommendation being included in the action plan at appendix A.
2. **Employee remuneration** (page 7). The external audit work is now complete and there are no significant issues to report.
3. **Operating expenses** (page 7). The external audit work is now complete and there are no significant issues to report.
4. **Significant findings – key judgements and estimates** (pages 9-11). The external audit completed has assessed these as green, management's process is appropriate and key assumptions are neither optimistic nor cautious.
5. **Significant findings – going concern** (page 13). Based on the external audit work undertaken, the assessment that the going concern basis is appropriate for the 2018/19 financial statements.
6. **Action plan** (page 18). Two amber (medium) actions have been recommended for further consideration by the council, being journals authorisation and extended the annual governance statement to include the councils subsidiary, Hoople Ltd.
7. **Follow up of prior year recommendations** (pages 19 and 20). Confirmation that all prior year recommendations have been implemented.
8. **Audit adjustments** (pages 21-23). All adjustments have been agreed and reflected in the final statement of accounts.

A further update will be shared at the meeting.

The Audit Findings for Herefordshire Council

Year ended 31 March 2019

30 July 2019



Contents



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- B. Follow up of prior year recommendations
- C. Audit adjustments
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- F. Management Letter of Representation

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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

| | | |
|-------------------------------------|---|--|
| Financial Statements | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> | <p>Our audit work commenced on site during June and as at the date of writing is still continuing, although is now substantially complete. Our findings to date are summarised within this report. We have identified a number of adjustments to the financial statements. Audit adjustments to date are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is currently on-going and the audit is not yet complete. In addition to the completion of our audit, the following are also outstanding matters;</p> <ul style="list-style-type: none">- receipt of management representation letter {– see appendix F}; and- review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified, see Appendix E.</p> |
| Value for Money arrangements | <p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p> | <p>During the course of our work, we were alerted to a matter arising in a draft Internal Audit Report. This matter is of such potential significance to our work, we have decided to delay issuing our VFM Opinion, until the matter has reached its conclusion. In all other areas in our risk approach we were satisfied with the Council's arrangements.</p> |
| Statutory duties | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit. | <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until one particular confidential issue, arising from previous years has been brought to its conclusion.</p> |

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's assets to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for Hoople; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 24 January 2019, or the subsequent audit update report on 19 March 2019. We did, however, need to respond to a national issue regarding pensions accounting, the McCloud judgement, that arose late in the year.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing a modified audit opinion following the Audit and Governance Committee meeting on 30 July 2019, as detailed in Appendix E.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Herefordshire Council.

| | Group Amount (£) | Council Amount (£) | Qualitative factors considered |
|---|------------------|--------------------|---|
| Materiality for the financial statements | 10,200,000 | 10,000,000 | We determined materiality for the Group as a whole to be £10,200,000 which is 1.4% of the Group's assets in 2017/18. |
| Performance materiality | 7,140,000 | 7,000,000 | We used a lower level of materiality to determine the extent of our testing. We set this at 70% of financial statement materiality. |
| Trivial matters | 510,000 | 500,000 | We determined the threshold at which we would communicate misstatements to the Audit and Governance Committee at £510,000, which is 5% of financial statement materiality. |
| Materiality for senior officer remuneration | 100,000 | 100,000 | We have set a lower level of materiality for senior officer remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts. |

Significant findings – audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| <p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> | <p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Herefordshire Council. No matters have arisen from our audit procedures.</p> |
| <p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p> | <p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements and decisions made by management • Tested journal entries • Reviewed accounting estimates, judgements and decisions made by management • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Our work on journals, has identified that no there is no authorisation process in place over the journals posted. The systems put in place by the Council do restrict who can post journals, but there is no authorisation once these are posted. See action plan at appendix A for recommendation.</p> |

Significant findings – audit risks

Risks identified in our Audit Plan

- 3 Valuation of land and buildings**
The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group 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.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

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- 4 Valuation of pension fund net liability**
The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.

Commentary

Auditor commentary

We have:

- Reviewed management's processes and assumptions for the calculation of the estimate.
- Reviewed the competence, expertise and objectivity of any management experts used.
- Reviewed the instructions issue to valuation experts and the scope of their work.
- Reviewed the basis on which the valuation was carried out, challenging the key assumptions.
- Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register.
- Tested a number of the valuations performed by the valuer to underlying data.
- Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

We are currently finalising our work in this area and there are no significant issues to report to date.

Auditor commentary

We have:

- Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Evaluated the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.
- Tested the data submitted to the actuary.
- Performed analytical procedures regarding the Council's share of fund assets.
- Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Checked the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.
- Considered the implication's for the Council of the recent McCloud judgement - see significant findings.

We are currently finalising our work in this area and there are no significant issues to report to date.

Other audit risks

Risks identified in our Audit Plan

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Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a significant number of individual transactions throughout the year, including transactions involving new-starters, grade changes and leavers, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified occurrence of payroll expenses as a risk requiring particular audit attention.

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Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Council's operating expenses. Management uses judgement to estimate accruals of non-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention.

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- Evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- Documented our understanding of processes and key controls
- Undertaken walkthrough of key controls to assess whether those controls were in line with our documented understanding
- Obtained the year end payroll reconciliation and ensures that the amounts in the accounts reconcile to the ledger and through to payroll
- Agreed payroll related accruals (e.g. unpaid leave) to supporting documents and reviewed for reasonableness, and
- Performed substantive analytical procedure for M1 to M12, disaggregated by month.

Our work is now complete and we have no significant issues to report.

We have:

- Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness
- Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls
- Documented the accruals process and the controls management has put in place, challenging key underlying assumptions, the appropriateness of the source data used and the basis of calculations
- Obtained a listing from the cashbook of non pay payments made in April and tested to ensure that they have been charged to the correct year and to confirm accuracy, occurrence, classification and cut off.

Our work is now complete and we have no significant issues to report.



Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|--|---|
| <p data-bbox="71 512 107 552">1</p> <p data-bbox="147 512 685 536">Potential impact of the McCloud judgement</p> <p data-bbox="147 552 763 671">The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p data-bbox="147 687 763 807">The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p data-bbox="147 823 763 979">The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> | <p data-bbox="786 512 1435 600">Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p data-bbox="786 616 1435 767">The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £2,836k, and an increase in service costs for the 2019/20 year of £574k.</p> <p data-bbox="786 783 1435 935">Management's view is that the impact of the ruling is not material for Herefordshire Council. The Council has now received the updated IAS19 Report from its actuary and is incorporating the revised actuarial valuation into its 2018-19 financial statements.</p> | <p data-bbox="1480 552 2143 671">We have assessed the approach used by the Council's actuary and the assumptions used and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p data-bbox="1480 687 2143 839">Given the change in liability resulting from the McCloud judgement management has agreed to process the adjustments of £2.8 million based on the updated IAS19 report. We consider this an appropriate adjustment to the Council's financial statements.</p> <p data-bbox="1480 855 2143 927">We have included this as an adjusted item at Appendix A. Our work in this area is not yet complete.</p> |





Significant findings – key judgements and estimates

Financial statements

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|--|--|--|
| Provisions for (NNDR appeals - £4.3m (£1.253m short-term, £3.968m long-term)) | The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. | <ul style="list-style-type: none"> We have: Reviewed the appropriateness of the underlying information used to determine the estimate. Considered the reasonableness of increase/decrease in estimate. Confirmed the adequacy of disclosure of estimate in the financial statements. |  (green) |
| Investment property valuation process | In accordance with IFRS 13 investment property should be measured at fair value at the reporting date. | <ul style="list-style-type: none"> Investment property per the financial statements note 10 totals £34.2m. In accordance with IFRS 13 investment property should be measured at fair value at the reporting date through an annual revaluation. The Council formally revalued all of its investment property as at 31st March 2019. We performed coverage sampling on Investment assets by testing a total amount of £27.8m of assets. The valuations were agreed to the valuer's report. We also examined the type of the property and the rental income earned to gain assurance over the property's classification. We are satisfied that the Investment property value included within the financial statements is not materially misstated. |  (green) |

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Assessment

-  (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious





Significant findings – key judgements and estimates

Financial statements


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| | Summary of management's policy | Audit Comments | Assessment |
|---|--|---|--|
| Land and Buildings – Other - £336.9m | <p>Other land and buildings comprises specialised assets such as the Queen's Diamond Jubilee Leisure Centre, Benn Hall and the John Barford Car Park , which are required to be valued at depreciated replacement cost (DRC) at year end. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end.</p> <p>The Council has engaged Wilkes Head & Eve to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. The council made the decision to value all property assets that hadn't been valued in 2017/18. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation as set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of properties valued by the valuer has resulted in a net decrease of £1.4m. Management has considered the year end value of non-valued properties. The valuer performs a review using local indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value - £656k.</p> | <p>We have:</p> <ul style="list-style-type: none"> Assessed the objectiveness and competency of management's expert. Determined the accuracy of the underlying information used to determine the estimate. Compared the consistency of estimate against a report from Gerald Eve setting out indices movements in the year. Tested the value of the properties by comparing a sample to underlying data to enable us to assess the reasonableness of the estimate. Tested a sample of valuations to underlying data. Reviewed the adequacy of disclosure of estimate in the financial statements. | <p> (green)</p> |

Assessment

-  (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

| | Summary of management’s policy | Audit Comments | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|--|---------------|-----------|------------|---------------|------|----------|-----------|-----------------------|------|----------|-----------|---------------|------|-----------|-----------|--|-------------|-----------------------|-----------|--|-------------|-----------------------|-----------|--|
| 14 | <p>Net pension liability – £268.3m</p> <p>The Council’s net pension liability at 31 March 2019 is £268.3m (PY £225.1m) comprising the Worcestershire County Council Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £43.2m net actuarial loss during 2018/19.</p> | <ul style="list-style-type: none"> We have reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures we have compared actual results with expectations and have concluded that the results are reasonable. We have reviewed the work of Mercers, through the use of an auditor’s expert, Pricewaterhousecoopers. We have undertaken an assessment of actuary’s roll forward approach, including completing detail work to confirm reasonableness of approach. |  (green) | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4-2.5%</td> <td style="text-align: center;">● (green)</td> </tr> <tr> <td>Pension increase rate</td> <td>2.3%</td> <td>2.3-2.2%</td> <td style="text-align: center;">● (green)</td> </tr> <tr> <td>Salary growth</td> <td>3.7%</td> <td>3.1-4.35%</td> <td style="text-align: center;">● (green)</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.7 / 24.9</td> <td>22.2-23.7 / 24.8-26.3</td> <td style="text-align: center;">● (green)</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.7 / 28.0</td> <td>25.0-23.7 / 27.9-29.0</td> <td style="text-align: center;">● (green)</td> </tr> </tbody> </table> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.4% | 2.4-2.5% | ● (green) | Pension increase rate | 2.3% | 2.3-2.2% | ● (green) | Salary growth | 3.7% | 3.1-4.35% | ● (green) | Life expectancy – Males currently aged 45 / 65 | 22.7 / 24.9 | 22.2-23.7 / 24.8-26.3 | ● (green) | Life expectancy – Females currently aged 45 / 65 | 25.7 / 28.0 | 25.0-23.7 / 27.9-29.0 | ● (green) | |
| Assumption | Actuary Value | PwC range | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 2.4% | 2.4-2.5% | ● (green) | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 2.3% | 2.3-2.2% | ● (green) | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 3.7% | 3.1-4.35% | ● (green) | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45 / 65 | 22.7 / 24.9 | 22.2-23.7 / 24.8-26.3 | ● (green) | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45 / 65 | 25.7 / 28.0 | 25.0-23.7 / 27.9-29.0 | ● (green) | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <ul style="list-style-type: none"> We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements and have undertaken analytical procedures regarding the Council’s share of fund assets. | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <p>Our audit work in this area is still ongoing as we await further information from the Actuaries.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |

Assessment
 ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
 ● (amber) We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
 ● (yellow) We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
 ● (green) We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

| Significant matter | Commentary | Auditor view |
|---|--|--|
| <p>1 Significant events or transactions that occurred during the year</p> | <ul style="list-style-type: none"> During the 2018/19 financial year, the pension liability of Hoople Ltd was passed back to the Council. | <ul style="list-style-type: none"> We have reviewed the legal advice that the Council received as well as the amendment to the deed of admission. We have no matters to report to you in this respect. Our work is currently on-going in looking at the accounting arrangements for this transfer. |

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

The Chief Finance Officer as s151 Officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

Management have determined that there is no evidence of an intention to cease the provision of services, and have therefore adopted the going concern assumption. We have not identified any issues through our review and enquiries that suggest that this is not appropriate.

We are satisfied that the going concern assumption is appropriate for the Council and is in line with accounting standards and the CIPFA code.

Work performed

Auditor commentary

We have reviewed management's assessment and confirm that the assumptions underpinning this is reasonable. Based on our review of management's assessment, no material uncertainties have been identified.

The Council's Medium Term Financial Plan does identify a current shortfall in income against expected costs over the MTFS period. Current levels of Council reserves confirm that the Council has sufficient useable reserves to call upon, should this be required to manage the financial position within the foreseeable future.

Concluding comments

Auditor commentary

Based on our work undertaken, we are satisfied with the Council's assessment that the going concern basis is appropriate for the 2018/19 financial statements.

Other communication requirements

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

| Issue | Commentary |
|---|--|
| ① Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures |
| ② Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed |
| ③ Matters in relation to laws and regulations | <ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work, we have, however, continued to be appraised of the matter that has resulted in the withholding of the audit certificate for the last two years |
| ④ Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in Appendix F Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the McCloud impact on the pension liability. |
| ⑤ Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the holders of investments, loans and the Council bankers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. |
| ⑥ Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements |
| ⑦ Audit evidence and explanations/significant difficulties | <ul style="list-style-type: none"> All information and explanations requested from management was provided No issues were noted with accounts closedown, production of draft accounts and working papers |

Other responsibilities under the Code

| Issue | Commentary |
|--|---|
| ① Other information | <ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified to date, however our work in this area is not yet complete. We plan to issue an unmodified opinion in this respect – refer to Appendix E</p> |
| ② Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p> |
| ③ Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the threshold and so no procedures are required.</p> |
| ④ Certification of the closure of the audit | <p>We will be unable to certify the completion of the 2018/19 audit of Herefordshire Council in our auditor's report, as detailed in Appendix E as there remain unresolved matters from the prior years and the Value for Money conclusion for 2018/19 has been delayed. We have been updated by officers of progress on the prior year matter during the year.</p> |

Value for Money

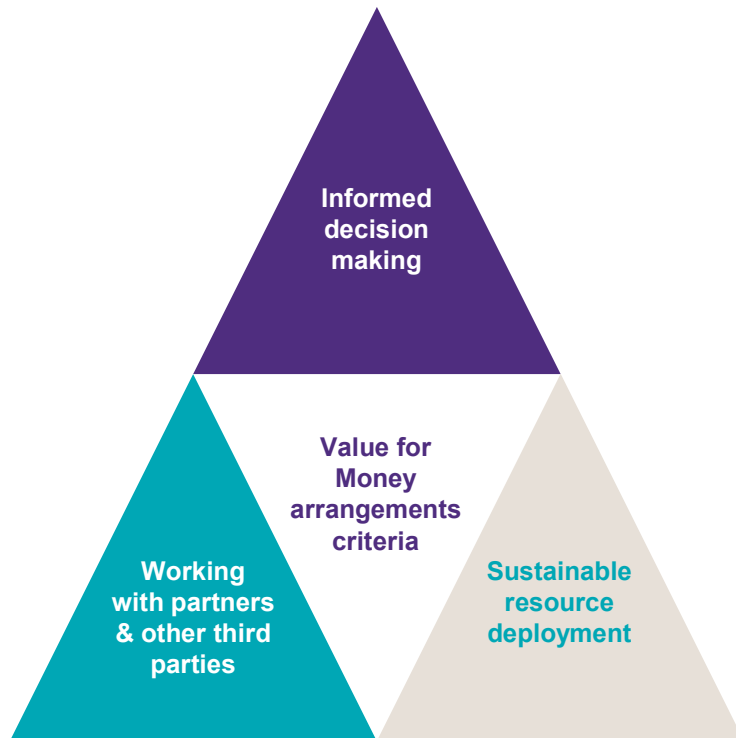
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



19

Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 23 January 2019.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

Overall conclusion

During the course of our work, we were alerted to a matter arising in a draft Internal Audit Report. This matter is of such potential significance to our work, we have decided to delay issuing our VFM Opinion, until the matter has reached its conclusion. In all other areas in our risk approach we were satisfied with the Council's arrangements.

The text of our proposed report is included in Appendix E.

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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| | Fees £ | Threats identified | Safeguards |
|--|-----------|---|--|
| Audit related | | | |
| Grant certification – housing benefits | 5,806 tbc | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,806 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall. |
| Audit of Teachers Pension | 6,000 tbc | | |
| Audit of SFA grant | 4,000 tbc | | |

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Action plan

We have identified recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|---|--------------|--|--|
| 1 | ● (amber) | Journals authorisation – During the course of our testing we noted that none of the journals posted to the financial system were subject to an authorization process. The risk is that this could result in a material misstatement in the financial statements. From discussions with management we note that the financial system has restrictions in place so that only appropriate staff can post journals. We understand that management are looking to introduce an authorisation process in the future. | We therefore recommend that management look to increase the priority of the authorisation process or put in place mitigating controls until this process can be implemented. Management response The Council will consider adopting this going forward. |
| 2 | ● (amber) | The Council now prepares group financial statements however the Annual Governance Statement appears to be focussed on the Council with limited reference to the subsidiary company, Hoople. The code confirms that where there is a group relationship, the review of the internal control systems shall include group activities. | We therefore recommend that management look to expand the Annual Governance Statement in future years to cover the group activities. Management response The Council will consider adopting this going forward. |

Controls

- (red) High – Significant effect on control system
- (amber) Medium – Effect on control system
- (green) Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Herefordshire Council's 2017/18 financial statements, which resulted in recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|------------|---|---|
| 1 | ✓ | <ul style="list-style-type: none"> Valuation of PPE: the balance sheet at 31/3/18 should reflect valuations at 31/3/18. For any assets not valued the Council must demonstrate that there has not been a material change in value. We noted that the revised asset register did not include information on impairments, which made the accounting for changes to valuations difficult and was a factor in the adjustments required on page 25. The asset register has now been updated and will be included going forward. | <ul style="list-style-type: none"> During 2018/19 WHE were appointed for a period of 3 years. The valuation date was amended to the year end (31st March) minimising the possibility of a material misstatement. Prior year downwards revaluations taken to the CI&E are on the FAR so reversals can be readily identified and actioned if necessary. |
| 2 | ✓ | <ul style="list-style-type: none"> Quality Control and preparation of working papers: Market Forces Review. There were material inconsistencies between assets considered for market review, and those assets held on register. The consequence was the assumptions that officers made around whether a material difference existed on the carrying value of assets was materially incorrect and more valuations were instructed at a late stage of the audit. | <ul style="list-style-type: none"> This is now a minimal issue due to assets being valued bi-annually and the year-end valuation date change. |
| 3 | ✓ | <ul style="list-style-type: none"> Quality Control and preparation of working papers: We recognise that officers made considerable efforts to support the audit. All the samples were turned round quickly and there were relatively few queries arising from that work. Also additional resource was obtained to deal with group accounts and other technical queries raised and this helped. | <ul style="list-style-type: none"> The audit documentation request during this year's finals audit was completed through the Inflo system. This seemed to work well, good to be able to view the statuses of each request online real-time. The working paper and queries were also more distributed amongst the finance team and this meant that the turnaround for requests was a lot more efficient compared to previous years. |

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------|------------|---|--|
| 4 | ✓ | <ul style="list-style-type: none"> Group accounts: The Council has for the first time prepared group accounts. We have worked with officers during the audit to refine the notes to ensure they fully code compliant. | <ul style="list-style-type: none"> The 2018/19 group accounts are very similar to 2017/18 due to the pension novation in 2018/19 the group accounts will substantially reduce in volume in 2019/20. |
| 5 | ✓ | <ul style="list-style-type: none"> Elimination of school balances: from our debtors testing we identified that debtors control account contained balances with schools under local authority control, which should under the code be eliminated. | <ul style="list-style-type: none"> This was reviewed at year end and due to not falling on a bank holiday this wasn't an issue for 2018/19 year end. |
| 23.6 | ✓ | <ul style="list-style-type: none"> The statement of accounts is a relatively clear and concise statement of accounts. To further improve we consider that the content of the narrative report could be expanded to include the capital outturn, and non financial performance information around the Council and the group. Footnotes should be added to explain significant changes in numbers year on year and significant estimates and judgements should be reviewed to reflect matters within the accounts. | <ul style="list-style-type: none"> Narrative report reviewed by finance team in 1819 and format updated. It has remained concise, concentrating on key messages. |

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements found to date are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|--|--|--|---------------------------------------|
| <p>1 Housing Benefits overpayments categorisation</p> <p>During our grants testing, it was identified that £620k of Housing Benefits overpayments income had been miscategorised as DWP Grant instead of Other grants and contributions. The Other grants and contributions line will show £620k more income and the DWP grants line will show £620k less income. The total of the note is unchanged.</p> | nil | nil | nil |
| <p>24 Pension Liability Valuation – McCloud Judgement</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>The actuarial valuation of the pension liability for the Authority had to be updated to assess the impact of the McCloud judicial judgement. This has resulted in an adjustment to the pension liability.</p> | (3,600) | (3,600) | (3,600) |
| <p>3 Waste Loan – accrued interest</p> <p>During our testing of a loan agreement with Mercia Waste Management Limited, we noted that interest of approx. £600k had not been accrued for.</p> | 600 | 600 | 600 |
| Overall impact | 3,000 | 3,000 | 3,000 |

Audit Adjustments

Misclassification and disclosure changes

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

| Disclosure omission | Detail | Auditor recommendations | Adjusted? |
|--|--|---|-----------|
| Employee bandings | <ul style="list-style-type: none"> Two employees were in the wrong band for the employees earning over £50k. These had been disclosed in the £125-130k band instead of the £120-125k band | <ul style="list-style-type: none"> Management should review disclosures prior to inclusion in the draft financial statements to ensure that they agree to underlying supporting information. | ✓ |
| Cashflow | <ul style="list-style-type: none"> Several disclosure points were identified whereby the notes to the cashflow did not agree to underlying notes or supporting information | <ul style="list-style-type: none"> Management should review disclosures to ensure that amounts are included correctly and that the values can be reconciled to other notes in the accounts. | ✓ |
| Exit packages | <ul style="list-style-type: none"> One individual was miscoded so had not been included within the exit packages Several employees had their salary figures listed instead of the exit packages amount | <ul style="list-style-type: none"> Management should review disclosures prior to inclusion in the draft financial statements to ensure that they agree to underlying supporting information. | ✓ |
| Group accounts | <ul style="list-style-type: none"> Several presentational adjustments were required to the Group accounts and notes | <ul style="list-style-type: none"> Management should review disclosures to ensure that amounts are included correctly and that the values can be reconciled to other notes in the accounts. | ✓ |
| General presentational amendments | <ul style="list-style-type: none"> We have identified other general amendments including spelling, grammar as well as other presentational items | <ul style="list-style-type: none"> We requested of management that amendments were made in relation to these items for clarity within the accounts | ✓ |

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit to date which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|--|--|
| 1 Our testing of expenditure cut off discovered an accrual for Housing Benefits expenditure for 2018/19 that was paid out 2019/20 has not been made. From the items we tested this identified an error of £23,588, which when extrapolated across the population is £570,927. | (571) | (571) | (571) | As this is an extrapolated error we would not expect an adjustment |
| 2 During our grants testing we identified a £25k credit to the fees and charges grants section was miscoded and should have been a credit to expenditure. Expenditure and income have therefore been overstated. The extrapolated error is £554,026. | (554) | (554) | (554) | As this is an extrapolated error we would not expect an adjustment |
| Overall impact | 1,125 | 1,125 | 1,125 | |

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Fees

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

Audit Fees

| | Proposed fee | Final fee | 2017/18 fee |
|--|--------------|-------------|-----------------|
| Council Audit | £95,792 | tbc | £124,405 |
| Potential additional fee, covering McCloud, IAS19 and PPE | tbc | tbc | - |
| Prior year audit overrun | £15,503 | £15,503 | £15,000 |
| Audit of subsidiary company – Hoople Limited | Nil | Nil | £12,000 |
| Grant Certification | £5,806 tbc | tbc | £5,806 |
| Total audit fees (excluding VAT) | £tbc | £tbc | £157,211 |

The proposed fees for the year, have not yet been approved by PSAA.

Audit fees are reported in the accounts rounded to £1m.

Non Audit Fees

| Fees for other services | Fees £'000 |
|--|---------------|
| Audit related services: | |
| • Grant Certification – housing benefits | 6 tbc |
| • Certification of Teachers Pension | 6 tbc |
| • Skills funding agency audit | 4 tbc |
| | 16 tbc |

Audit opinion

We anticipate we will provide the Group with a modified audit report

Independent auditor's report to the members of Herefordshire Council Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include Notes to the Core Statements, Notes to the Group Accounts and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 13, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. In addition, we are unable to issue our conclusion until we have completed our consideration of matters that have been brought to our attention by the Authority. We are satisfied that these matters do not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jon Roberts

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date

Management Letter of Representation

Our ref:
Your ref:

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

[Date]

30 Dear Sirs

Herefordshire Council Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council and its subsidiary undertaking, Hoople Limited for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/19 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Except as disclosed in the financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the Council has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

The group and parent Council financial statements are free of material misstatements, including omissions.

Management Letter of Representation

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Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

We believe the accounts presented adequately represent the impact on the pension deficit position following the recent case law decision in respect of the protections for members nearing retirement being deemed to have given rise to an unlawful age discrimination to younger workers without those protections (what is known as the McCloud case). The full impact will be considered in finalising the LGPS 2019 triennial valuation.

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the group and parent Council financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 30 July 2019.



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