



The Audit Findings for Herefordshire Council

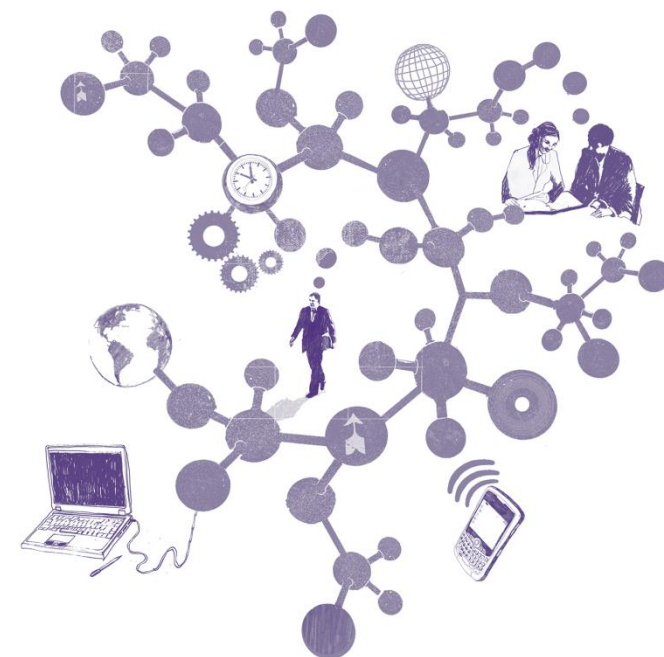
Year ended 31 March 2015

September 2015

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14 September 2015

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Audit Findings for Herefordshire Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Herefordshire Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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.

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

Yours sincerely,

Phil Jones, Director

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Herefordshire Council's (the Council's) financial statements for the year ended 31 March 2015. 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 (ISA) 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, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. 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 (VfM) conclusion.

Introduction

We communicated our planned audit approach to you in our Audit Plan on 18 March 2015. Since this Plan was issued, we have made only one change to the strategy to no longer classify the risk on welfare expenditure. We have also carried out additional work on the Council's accounting treatment for maintained schools following recent changes to national guidance.

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

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

This year the Council committed to producing its statement of accounts considerably earlier than in previous years. We received draft financial statements in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements. We identified some material adjustments affecting the Council's Balance Sheet. The adjustments mainly relate to incorrect valuations of schools and the omission of school assets (details are recorded in section 2 of this report). Net Assets and Total Reserves in the balance sheet have both increased as a result by £9.082 million. We have also identified a number of adjustments to improve disclosure in the financial statements. There are no non trivial unadjusted misstatements.

Most working papers to support the figures in the accounts were received early and were fit for purpose. There were still a few areas where it took too long to obtain satisfactory support for account balances. We are pleased to see that the Council is very keen to continue its improvement process and change processes for next year and we are happy to help in this process. This will be important as the audit accounts timetable is moved forward to the end of July in future years.

In view of the significance of the judgement needed to be exercised in relation to the accounting for school land and buildings this year, our audit work considered in some detail the basis for and evidence underlying the exercise of management judgement applied. The judgement applied has led to the Council recognising an additional net £35.4 million of assets on the balance sheet this year. Based on our work, we can confirm agreement with Management's treatment. Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion. The Council reported a surplus of £600,000 in 2014/15. This has been achieved by a strategic approach to service provision supported by careful financial management. The Council now faces another significant challenge to deliver a further savings over the three years from 2015-16 and planning for this is well advanced.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention. Further details are provided within section 2 of this report.

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 Director of Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

Acknowledgment

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.

Section 2: Audit findings

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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. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 18 March. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We communicated our planned audit approach to you in our Audit Plan on 18 March 2015. The change to the plan presented is explained on page 5.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

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.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Herefordshire 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>Our audit work has not given us any cause to change that assumption.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3	<p>Financial statement level risk</p> <p>On the 1st April 2015 the Authority upgraded its accounting system , which involved data transfer from one system to another</p>	<p>We reviewed the data transfer process to ensure that the data transfer was accurate and complete</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</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
Operating expenses	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"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reconciled the operating expenses figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and the subsidiary accounts system • reviewed for unrecorded liabilities through, for example, review of payments made before and after the year end • reviewed of the accruals process and a sample of creditor balances as at 31 March 2015. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reconciled the payroll figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and payroll subsidiary system • reviewed monthly trend analysis of payroll 	Our audit work has not identified any significant issues in relation to the risk identified.



New issues and risks identified during the course of the audit

In this section we detail our response to the new risks of material misstatement which we identified during the course of the audit.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Accounting for schools</p>	<p>Clarification on accounting for school buildings has been published by CIPFA in their "LAAP bulletin 101:-Accounting for non-current assets used by Local Authority maintained schools".</p> <p>The guidance refers to the considerations in relation to determining whether school land and buildings should be recognised on the Council's balance sheet. The guidance covers community, voluntary aided, voluntary controlled and foundation schools.</p> <p>A key determinant of the assessment for inclusion of land and buildings is whether the rights to use the asset have been transferred to the Council from the entity which owns the asset or whether the Council owns the asset.</p> <p>The assessment requires management to exercise judgements. As a result of this exercise management identified that £35.4 million of school land and buildings should be recognised on the Council's balance sheet.</p> <p>Due to the material nature of this judgement, it was necessary for us to perform work to determine whether the judgements were appropriate.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Tested whether the Council has identified all maintained schools within its area • Considered the Council's application of the relevant accounting principles to account for these and challenged assumptions where necessary • Reviewed whether the financial valuations of those assets to be brought onto the balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers. • Confirmed transactions have been appropriately recorded as a prior year adjustment, as any changes in the accounting for these assets has been deemed to be a change in accounting policy 	<p>Based on the evidence made available to us and the application of the principles in the Code and other accounting guidance ,we can confirm that we agree with management's exercise of judgement. Our audit found errors on both the omission of schools and valuation of schools which have now been corrected. Further details are set out on page 14.</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
<p>Revenue recognition</p>	<p>Revenue from provision of services is recognised when the council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the council. It is accounted for in the year that it takes place and not when the payment is made.</p> <p>Revenue grants received are accounted for on an accruals basis when the conditions of their receipt are met.</p>	<ul style="list-style-type: none"> • The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). • Income is not an area that requires significant judgement or estimation. • The disclosure of the accounting policy is adequate 	
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • PPE valuations and revaluations • impairments • useful life of capital equipment • pension fund valuations and settlements • Contingent liabilities. 	<p>The other estimates and judgements made by management are in line with the Code's expectations. See Property Plant and Equipment estimates below for further details.</p>	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

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
Judgements and estimates - PPE	<ul style="list-style-type: none"> The council undertakes a five year rolling programme of revaluations. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015. The Council is moving towards full compliance with the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously. 	<p>For assets not valued in the year, assurance has been gained from the Council's in-house valuer, external valuer and the finance team that the value of Property, Plant and Equipment held in the accounts remain materially correct.</p> <p>The evidence provided to support the valuation of assets not valued in the year to demonstrate that the carrying values in the accounts were materially correct was robust.</p>	●
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements 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

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Not all of the recent PPE Valuations had been included in the asset register. This has resulted in an increase in the land valuations of £6,066,000 and a decrease in land of £173,000.		5,893	
2 Not all of the school assets had been brought onto the balance sheet per the Council's accounting policies. This has resulted in bringing an extra nine schools on the balance sheet at a value of £3,189,000 (£2,087,000 buildings and £1,095,000 land).		3,189	
Overall impact		9,082	

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	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	NA	Accounting Policies	Accounting policies were amended to remove outdated terminology on pensions and to add accounting policies on charges to revenue for non current assets, the minimum revenue provision, council tax and NNDR, the recognition of schools and the de-recognition of academy schools.
2 Disclosure		Third Balance Sheet	When an accounting policy is applied retrospectively, as is the case with bringing the schools onto the balance sheet, accounting standards require a third balance sheet (2012/13) to be included. This has now been added to the accounts.
3 Disclosure	NA	Various	There were a number of changes to the notes to the accounts to comply fully with Code of Practice including notes to the Cash Flow statement, further disclosures on NNDR provision, amendment to the way audit fees are shown and changes to include the most up to date terminology in note 8.39.3 on pensions.
4 Disclosure	NA	Various	A number of other changes were made to the draft set of accounts including rounding errors, casting issues and typing errors.

Misclassifications & disclosure changes (continued)

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	Value £'000	Account balance	Impact on the financial statements
5	Disclosure	Various	Various	A number of other changes were made to correct typographical, rounding, formatting and note references..

Internal controls

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

Our audit included consideration of internal controls 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. We identified no significant control weaknesses during the course of our audit that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. We have discussed some less significant issues with management, including the need to ensure that all journals which take place after the year end closedown date are approved by the Deputy Section 151 Officer, as the Council financial procedures require.

Other communication requirements

We set out below details of other matters which we 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"> We have previously discussed the risk of fraud with the Audit and Governance Committee . 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
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. although our audit did identify amendments to the draft accounts to improve disclosure (slide 15)
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

The Council, like most others nationally, continues to face challenges in how to balance its budget. The outturn position in 2014/15 shows the budget has been achieved which is a positive achievement. Overall our work highlighted that the Council has satisfactory arrangements in place to secure financial resilience. In particular:

- a robust corporate strategy, medium term financial strategy and savings plan are in place
- the Council delivered its overall savings target
- arrangements for governance processes including risk management and the production of the Annual Governance Statement are satisfactory
- financial management is sound with effective reporting of variances from plans

Value for Money

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has satisfactory arrangements in place to challenge value for money and in particular: the Council:

- understands its priorities and allocates resources appropriately
- continuously considers how best to achieve value for money.
- understands the risks in relation to the waste contract and has made appropriate arrangements to mitigate these
- is continuing to respond to the risks associated with Adults and Children's Social care

The Council has further strengthened its arrangements to challenge value for money by improving how savings schemes are monitored and reported in the year.

We reported to the July Audit and Governance Committee our response to an objection we received in relation to the variation to the waste PFI scheme to build an energy from waste plant in Hartlebury. Whilst we identified areas where processes could be improved, we concluded that the Council had taken appropriate advice and that a report in the public interest was not appropriate in the circumstances.

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 satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Key indicators of performance	We reviewed the Council's including performance against budgets and level of reserves. The Council's general fund reserve increased again to £7.1 million due to the £600,000 underspend and this now equates to 5% of net budget. The overall level of non school reserves has risen in 2014/15 and working capital has been maintained within expected levels when the effect of LOBOs are taken into consideration. School reserves also increased during the year.	Green	Green
Strategic financial planning	The Council's medium term financial strategy takes into account the factors we would expect and is updated sufficiently regularly and its response to significant events in the annual financial cycle. Budget papers to Members have been updated and improved to show a clear link to Council key priorities. The Council consulted with the public on the proposed budget including using an online budget setting tool. The budget proposals were considered by General Overview and Scrutiny Committee. The Council continues not to have a 10 year financial plan but in the current climate we believe this does not adversely affect medium to long term planning. Although some planned savings were not achieved in 2014/15 compensating savings were made which meant the Council achieved its savings target. The savings needed for 2015-16 are forecast to be £10m and work is well advanced for how these savings will be achieved.	Green	Green
Financial governance	The Council understands its financial environment and there is leadership and challenge from members. Financial reporting to members is sound and, in particular, both the explanation of the financial strategy and reporting of the revenue out-turn for the year was clear and comprehensive.	Green	Green

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Financial control	The Council continues to manage its finances effectively. The revenue budget was £600,000 underspent in 2014/15. Children's Well-being was the only directorate overspend with a £529,000 overspend and this is also currently forecast to overspend in 2015/16. Budget monitoring and reporting throughout the year was comprehensive and enabled members to understand the ongoing financial position. It is pleasing to note that Adults and Well-Being underspent as a directorate in 2014/15 given that this was a major overspending area until fairly recently. The Council had previously taken a significant step by returning the management of social workers to its direct control.	Green	Green
Prioritising resources	The Council has a good understanding of the available resources and the priorities for spending. Arrangements to challenge value for money continue to be developed.	Green	Green
Improving efficiency & productivity	Costs and performance of services are monitored through the Council's performance management system. The Council is continuing to focus effort on demand led services such as Social Care. The Council is continuing to improve its arrangements by improving the monitoring of savings schemes. Children's Well-Being was the only directorate overspend in 2014/15. In March 2015 the Parliamentary Under Secretary for State for Children and Families wrote to the Council lifting the improvement notice previously in place in Children's services. Ofsted identified areas for improvement and these are reflected in the Council's own improvement plan. The July 2015 Cabinet report showed an overall forecast overspend in Children's and Well-being of £1.3m which was contributing to an overall forecast deficit for the Council of £595,000. The overspend in Children's was due to additional safeguarding costs and in particular the use of agency staff and higher than expected placement costs.	Green	Green

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 and confirm the fees for the provision of non audit services

Fees

	Per Audit plan £	Actual fees £
Council audit	164,803	164,803
Grant certification	6,420	6,420
Total audit fees	171,223	171,223

Fees for other services

Service	Fees £
Certification of Teachers pensions Agency return	4,200
Forensic assistance with contractor	4,000

Independence and ethics

We confirm that there are no other 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.

We are also satisfied that there is informed management and that there are appropriate safeguards in place to ensure that the certification of the teachers pension agency return and forensic assistance did not present an unacceptable threat to the independence of current and future audits of the financial statements.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard 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).

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 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

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should continue to redesign the process for closedown and audit of the accounts to ensure a more efficient approach and the Council is ready for the revision of the audited accounts deadline.	●	This is underway with earlier closedown planning meetings already scheduled, the revised deadline is considered achievable	31.01.2016 Head of Corporate Finance
2	Controls should be strengthened on the accounting of all PPE assets by ensuring that: -all valuations in the asset register and accounts agree to most recent valuations carried out -all assets are included in the balance sheet.	●	A comprehensive review of the fixed asset register including the agreement of entries therein has begun. Improvements have already been identified and completed.	31.12.2015 Head of Corporate Finance

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Herefordshire Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. 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 2014/15.

This report is made solely to the members of Herefordshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Herefordshire Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Herefordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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September 2015



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