

# The Annual Audit Letter for Herefordshire Council

---

**Year ended 31 March 2015**

October 2015

**Phil Jones**  
Engagement Lead  
T 0121 232 5232  
E [phil.w.jones@uk.gt.com](mailto:phil.w.jones@uk.gt.com)

**Terry Tobin**  
Senior Audit Manager  
T 0121 232 5276  
E [terry.p.tobin@uk.gt.com](mailto:terry.p.tobin@uk.gt.com)

**Sarah Good**  
Audit Executive  
T 0121 232 5334  
E [sarah.l.good@uk.gt.com](mailto:sarah.l.good@uk.gt.com)



---

# Contents

<b>Section</b>	<b>Page</b>
1. Key messages	3
<b>Appendices</b>	
A Key issues and recommendations	6
B Summary of reports and audit fees	7
C How we brought you added value this year	8

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.

# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Herefordshire Council ('the Council') for the year ended 31 March 2015

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Financial statements audit (including audit opinion)**

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 September 2015 to the Audit and Governance Committee. The key messages reported were:

- The draft accounts presented for audit were of a good quality, a improvement on previous years.
- The accounts were produced earlier and the audit completed earlier than in previous years.
- There were no unadjusted errors. The only misstatements we found related to the omission of some schools from the balance sheet and not including some more up to date school valuations. The effect of this was to increase the value of property in the balance sheet by £9.1 million.
- The quality of working papers and speed of response showed an improvement on previous years and the Council is fully aware of the few areas it still needs to improve on for 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 confirmed agreement with Management's treatment.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 29 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

# Key messages

## Value for Money (VfM) conclusion

We issued an unqualified VfM conclusion for 2014/15 on 29 September 2015. 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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

### Overall Financial Position

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

The Council has further strengthened its arrangements to challenge value for money by improving how savings schemes are monitored and reported in the year. Budget monitoring and reporting throughout the year was comprehensive and enabled members to understand the on going 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

### Waste PFI

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.

# Key messages

<b>Value for money conclusion (continued)</b>	<b>Safeguarding children</b> Children's Well-Being was the only directorate overspend in 2014/15 with a £529,000 overspend. 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 2015/16 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.
<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
<b>Certification of grant claims and returns</b>	We have not yet certified any grant claims, however work is in progress on the housing benefit claim, with a certification deadline of the end of November 2015. We will report the findings from the audit of this claim as part of our Grant Certification Report in February 2016
<b>Audit fee</b>	Our fee for the core audit in 2014/15 was £165,873 excluding VAT. Further detail is included within Appendix B.

# Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
1.	<p><b>Audit closedown process.</b></p> <p><b>Recommendation:</b> 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</p>	Medium	<p>This is underway with earlier closedown planning meetings already scheduled, the revised deadline is considered achievable</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Due date: 31 January 2016</p>
2.	<p><b>Property assets.</b></p> <p><b>Recommendation:</b> Controls should be strengthened on the accounting of all Property Plant and Equipment assets by ensuring that:</p> <ul style="list-style-type: none"> <li>-all valuations in the asset register and accounts agree to most recent valuations carried out</li> <li>-all assets are included in the balance sheet.</li> </ul>	Medium	<p>A comprehensive review of the fixed asset register including the agreement of entries therein has begun. Improvements have already been identified and completed</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Due date: 31 December 2015</p>

# Appendix B: Reports issued and fees

We confirm below the fee charged for the audit.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee *	164,803	165,873
Grant certification fee **	6,420	TBC
<b>Total fees</b>	<b>173,203</b>	<b>TBC</b>

\*The Audit Commission increased the fee by £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors no longer carry out work to certify NDR3 claims. The additional fee was 50% of the average fee previously charged for NDR3 certifications for unitary councils.

\*\* The final certification fee will be reported in the annual certification report in February 2016.

## Fees for other services

Service	Fees £
Teachers Pension Agency Claim	4,200
Forensic assistance with a contractor	4,000

## Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015

# Appendix C-How we brought you added value this year

## Council leadership

### We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health and our reports on Alternative Delivery Models, Pension Fund governance, Welfare Reform, Health and Well-being, Financial Sustainability in Local Government and Devolution.
- review of the development of a solution for waste disposal for Herefordshire and Worcestershire .
- provided an opportunity to network with other Local Government bodies at our workshops covering taxation, building a local authority company, integration with health, Local Government self-sufficiency and 20:20 vision.
- arranged a local workshop to raise awareness on good governance

## Audit committee

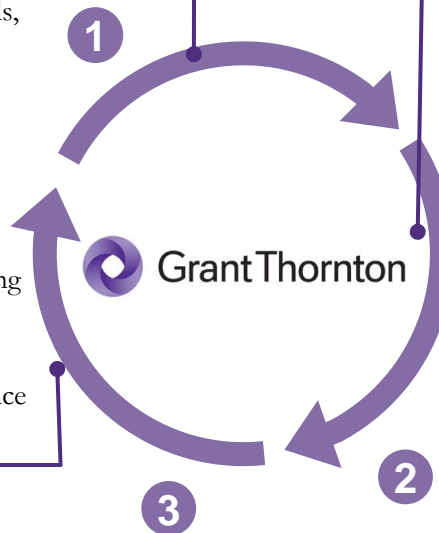
### We:

- provided independent external audit commentary and insight on your key issues through senior attendance at every audit committee and shared a LG publication to help members of local authority audit committees understand the financial statements and discharge their responsibilities as they review the accounts
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance throughout our audit
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments.

## Council management

### We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss financial accounts opinion audit and other issues including WGA and grant certification work to ensure you submit accurate figures to central government.
- presentation of audit requirements at your finance accountants meeting reflecting our engagement and partnership working with finance. Worked with the finance department to improve the accounts process and to strengthen controls and systems
- shared technical knowledge , provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our annual finance seminar
- liaised with internal audit to minimise duplication.
- introduced our Forensics team to the Council who helped in a dispute with contractors
- our Place Analytics team has provided a complimentary summary of the County's performance and position on our growth and dynamism indices covered in our 'Where Growth Happens' report.







© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**