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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

Audit Findings

Year ending 31 March 2018

Herefordshire Council

30 July 2018

Contents

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Headlines

This table summarises the key issues 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 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's Council's financial position and of the group and Council's expenditure and income 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. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, 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.	Our audit work was completed on site during June and July. Our findings as at 18 July are summarised within this report. We have identified a number of adjustments to the financial statements. The financial impact of these adjustments has yet to be finalised. 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. Subject to completion of the outstanding work and finalisation of the position on PPE, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include: - Completion of the work on property plant and equipment (PPE), including review of adjustments - Pooled budgets - CIPFA disclosure checklist - Public Finance Initiative financed assets (PFI) – consideration of auditor's expert findings - consideration of letter of assurance from pension fund auditor and any subsequent procedures required - Financial instruments including fair value disclosures and review of technical advice on Loans (Lobos) - Review of Expenditure and Funding Analysis (EFA) - Housing benefits: finalisation of sample testing and analytical review - receipt of management representation letter; and - review of the final set of financial statements, Movement in Reserves Statement (MIRS) and AGS reflecting adjustments We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.

Headlines

This table summarises the key issues 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 2018 for those charged with governance.

Value for Money arrangements	**Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, 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')**	We have almost completed our risk based review of the Council's value for money arrangements. The Council has recently had an Ofsted review within children's services, and the findings are due to be reported imminently. The final report is expected before the statutory deadline for the accounts. The outcome of the review will provide 'significant new information', which under the code, we should consider before forming our value for money conclusion. We expect that we can communicate the impact on our value for money conclusion by the 30 July 2018 Audit and Governance Committee.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We do not expect to be able to certify the conclusion of the audit yet as there is an outstanding matter yet to be resolved from the prior year.

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. This year has been challenging at all Councils due to the accelerated closedown bringing forward the audit deadline by two months. We have taken steps to complete as much work early in the financial year, and this has taken some pressure off the year end audit. Despite this, delivery of the year end audit in two months is a considerable challenge There have been some issues arising from the audit, and we have worked hard with your officers to try and resolve these by the earlier deadline. With a relatively small number of finance staff involved in the audit we recognise that this has been a challenge for your team also.

Summary

Overview of the scope of our audit

This Audit Findings 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 have been discussed with management.

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

A decision to prepare group accounts was made subsequent to the issue of the audit plan to the audit and governance committee. Our final accounts planning has therefore been extended to consider the group position The opinion on the accounts will now differ to previous years as it will cover the group rather just than the single entity.

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 components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues 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 An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to completion of the outstanding work and finalisation of the position on PPE, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:

- completion of the work on property plant and equipment (PPE), including review of adjustments
- pooled budgets
- CIPFA disclosure checklist
- PFI – consideration of auditor's expert findings
- consideration of letter of assurance from pension fund auditor and any subsequent procedures required
- financial instruments including fair value disclosures and review of technical advice on specific loans (Lobos)
- Expenditure and Funding Analysis EFA)
- housing benefits – analytical review
- receipt of management representation letter; and
- review of the final set of financial statements, group accounts, MIRS and AGS reflecting adjustments.

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Summary

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.

Our assessment of the value of financial statements and performance materiality has been adjusted to reflect out-turn gross expenditure. A separate materiality has been set for the group. We have also set a materiality for local government senior manager remuneration at £100k which was not reflected in our audit plan. .We detail in the table below our assessment of materiality Herefordshire Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,644,000	6,550,000	We determined materiality for the audit of the Council's financial statements as a whole to be £963,000, which is 1.8% of the Council's gross operating expenses in 2017/18. We have revised this from the materiality set at planning of £5,899,000.
Performance materiality	4,651,000	4,585,000	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	332,200	327,500	We determined the threshold at which we would communicate misstatements to the Audit and Governance Committee at £602,000 (5% of financial statement materiality)
Materiality for specific transactions, balances or disclosures	100,000	100,000	We have set a lower level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** 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: • 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 Therefore we do not consider this to be a significant risk for Herefordshire Council. No matters have arisen from our audit procedures.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. 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.	**Auditor commentary** We have: • 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 • reviewed unusual significant transactions • evaluated the rationale for any changes in accounting polices or significant unusual transactions. During the financial year, the Council has changed the policy for MRP to provide a financial saving. We have considered the change and are not minded to challenge the approach adopted. The accounting policies refer to the change and the impact and the savings of £5m reflected in earmarked reserves. Note 30 shows a year on year reduction of £4m. Our work on accounting policies and judgements is not yet complete.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings on a quinquiennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** • Review of management's processes and assumptions for the calculation of the estimate. • Review the competence, expertise and objectivity of any management experts used. • Review the instructions issued to valuation experts and the scope of their work • Review the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge the information used by the valuer to ensure it was robust and consistent with our understanding. • Test revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluate 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. This work is currently ongoing. Officers have undertaken extensive valuations this year, cleaned up the asset register and taken steps to address the weaknesses identified in the prior year. A new valuer was appointed in year. Valuations are significant estimates and different valuers may make different professional judgments and we have seen that this has had some impact on the valuation of some assets, such as investment assets. Officers have taken steps to assure themselves that these estimates are reasonable, however this should be more clearly articulated in the accounts and working papers. Our audit procedures have identified issues in both the approach and the working papers to support assets valued and not valued in year, including the approach to the uplift valuations as at 1st April to the year end. We sought additional information and assurances around changes in assumptions made by the valuer and will recommend additional disclosures in the accounts in relation to these. Issues were also identified in the accounting for reversal of impairments through the statement of comprehensive income and expenditure (CIES). Revised working papers and adjustments to be made to the accounts are currently being prepared and considered.
4	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** • Identify 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. • Evaluate the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gain an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. The work on this areas is not yet complete. We are awaiting assurances from the pension fund auditor and will need to undertake additional procedures when this information is received.

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Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**Employee remuneration** Payroll expenditure represents a significant percentage (27%) of the Council's operating expenses. As the payroll expenditure comes from a 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 completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Councils accounting policy for recognition of payroll expenditure for appropriateness • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the 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 12, disaggregated by month. We have mostly completed our work in this area and there are currently no issues to report.
8	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (58%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** 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 evaluate 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 of 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 t the appropriate year, and • obtained a listing of non pay expenditure and agreed a sample to supporting information and tested to ensure that the items have been charged to the correct year and to confirm accuracy, occurrence, classification, and cut off. We are currently finalising our work in this area and there are currently no significant issues to report. The polices to the accounts state that there is a de-minimus for accruing for expenses, although the value is not stated, officers informed us that it is £25k. We found that this policy was not strictly enforced as items are accrued under £25k. We have evaluated the likely impact of applying the policy and concluded that the maximum understatement of expenditure would be £1.7m. We therefore do not have any concerns with this accounting policy.

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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.

	Issue	Commentary	
1	**Group accounts**	• Our audit plan did not reflect group accounts because decision to prepare them was made subsequently. The decision was made to better reflect the relationship with Hoople Ltd as the Council is the major customer. It makes the position on the pension fund more transparent. Hoople is not a financially material component.	**Auditor view** • Our work on the group accounts is currently ongoing. As this is the first year of preparing group accounts we have discussed the presentation of the notes and steps that could be taken to make the disclosure more succinct, including reducing the number of associated disclosure notes. Some adjustments are to be made to the disclosure although no significant concerns have been identified, although our work has yet to be finalised.
2	**Agency accounting**	• The Council has become the accountable body for the proposed university. Funds are received by the Council and are passed on to the university following certain checks. The related income and expenditure is not material but is expected to be so in the future. The Council has accounted for the arrangement as an 'agent' so the associated income and expenditure is not reflected in the accounts. We asked the Council to confirm the basis of this accounting, in particular demonstrating that the Council was not exposed to risk.	**Auditor view** • The Council has demonstrated its consideration that the significant risks lie with the university and agency accounting is deemed to be appropriate. We recommend that this is considered annually as the relationship with the NMITE changes. When the amounts become material we would recommend that this judgement is highlighted as a critical judgement.

Significant 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	
Concerns about management's consultations with other accountants on accounting or auditing matters	• **Hoople pensions:** In the prior year we raised concerns with the accounting treatment of Hoople pensions within the draft accounts. The position was subsequently adjusted for. We understand that there has been no further progress on this matter and the accounts are presentation is consistent to the final 2016/17 statements. • **Pension guarantees:** where a Council has TUPE'd staff to another organisation, it is likely that there will be some form of pension guarantee in place. This may need to be reflected in the accounts. Officers have undertaken a review of the pension arrangements and are satisfied that in the main these represent derivative financial liabilities under IAS 39, to be accounted for at fair value through profit and loss. The amounts involved are assessed by the Council as not material and thus is not reflected in the accounts. One company has folded with outstanding pension fund liabilities, however the potential liability arising is not considered material.	**Auditor view** • The presentation of Hoople pension is appropriately reflected in the 2017/18 accounts. The Hoople liability is reflected on consolidation in the group accounts. • The approach taken to identify guarantee is reasonable and we are not minded to challenge the accounting treatment.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue and capital transactions are accounted for on an accruals basis where above the de-minimus thresholds • Government grants and other contributions are recognised where reasonable assurance has been gained that the Council will comply with relevant terms and conditions and it is likely the amounts will be received • Income receivable from the sale of good and rendering of services is recognised in line with the relevant conditions • Collection fund income is recognised on an accruals basis	• No matters arising	Green
Judgements and estimates	• Useful life of PPE • Revaluation • Impairments • Accruals • Valuation of pension fund net liability • Provision for NNDR appeals • Other provisions	This work is not yet complete There have been some judgments made by the valuer that has had significant impact on the value of some assets – for example yield values, and we recommended that these were clearly articulated under critical judgements. Accounting for Schools land and buildings should be included in critical judgements as this relates to material judgements. Agency accounting should be included as a critical judgement. No stated critical judgement on schools – reference is made in other notes rather than as a critical judgement.	Amber
Other critical policies		This work is not yet complete.	Grey

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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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**	• 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**	• We have identified some organisations that would appear to be related parties that have not been disclosed. We are currently discussing the adequacy of disclosure with officers.
3	**Matters in relation to laws and regulations**	• 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.
4	**Written representations**	• A letter of representation will be requested from the Council, we have yet to decide whether specific representations will be required.
5	**Confirmation requests from third parties**	• 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**	• Our work on disclosures is currently ongoing. We have suggested additional notes and disclosures. To date we have not found any material omissions.
8	**Significant difficulties**	• There has been some difficulty completing our work on valuation of PPE and we are not currently as advanced as hoped on all areas of the audit as a consequence. Officers have sought additional valuations and explanations and have prepared additional/ revised working papers and further information requested. Group accounts is also a new area of review this year and the notes are quite extensive and are taking time to review.

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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. No inconsistencies have been identified We plan to issue an unqualified opinion in this respect – refer to Appendix E. we have made recommendations on the content of the Narrative Report.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • 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 We have suggested minor improvements to the AGS but have judged that it is compliant with the Code and there are no material omissions.
3	**Specified procedures for Whole of Government Accounts**	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.
4	**Certification of the closure of the audit**	We will be unable to certify the completion of the 2017/18 audit of Herefordshire Council in our auditor’s report, as detailed in Appendix E as there remain unresolved matters from the prior year.

Value for Money

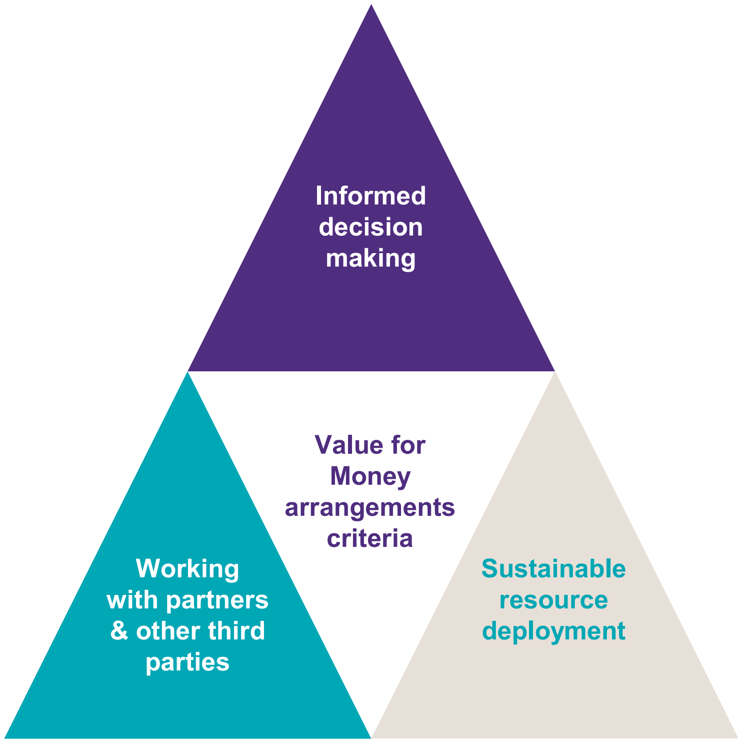
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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:



Risk assessment

We carried out an initial risk assessment in January 2018 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 January 2018.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

- Local Government Association Corporate Peer Challenge
- Children Act 1989, section 20 legal finding in relation to the application of the Act.
- Ofsted inspection of Children's Services

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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Value for Money

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.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Responses to the recommendations made by Internal audit on Blue school house
- The assumptions in the MTFP with particular focus on adults and children's services.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

Overall conclusion

We have yet to fully conclude on this area, and are unable to do so until .

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.** If the key assumptions within the medium-term financial plan are not reasonably based then the future financial position of the Council could be at risk.	**We considered the key assumptions in the medium term financial plan focussing on the assumptions around children's services and adult social care as the areas having most risk.** The MFTFP is reporting savings of over £96m for the period 2010 to 2020, £19.2m is the target level of savings for the next three years with almost £13m to be delivered in 2018/19. The Council therefore has a good track record for delivering savings. In 2010, the need to make savings was considered crucial to making the Council more financially sustainable. More recently the financial pressure on councils has grown through reductions in central government grants and increasing costs particularly through demand in social care. Future risks include the impact of changes to the business rates regime. The Council has focussed on delivering recurring savings but also disposing of assets which do not meet strategic priorities, providing capital receipts to be invested in corporate priority areas. In Herefordshire we have not seen a particular focus on income generation which we are seeing in some other councils.. Publically available benchmarking information suggests that the level of balances are about midpoint for other unitary councils when considered in relation to expenditure. Whilst some use of balances has been made in the year there has been a net addition of £13.1m to revenue reserves (earmarked) and £38.4m to capital balances, through the sale of assets which generally did not provide a significant revenue stream. Overall good progress has been made towards improving the financial stability of the Council through its focus on increasing balances. Additions to reserves included £4m as a consequence of a change in MRP policy and there are other balances remaining which could potentially be released to general reserves or revenue. The level of balances are to be reviewed in the 2018/19 financial year, partly in response to the LGA Peer eview recommendations. In 2017/18 the Council reported a breakeven out-turn. At quarter three overspends in both adults and children's were anticipated, however at out-turn an improved position was reported for adults. The overspend in children's services was c£2m in 2017/18 and this was partly due to slippage in delivering savings plans. The level of savings to be achieved by the children's directorate are lower both in value and proportion to net budget However clearly this is a key risk area. At the year end there were 305 looked after children compared with a target of 180. There was no notable change in total number during the financial year. Discussion with officers and review of the savings reports indicate that reducing the existing cohort of looked after children is a key focus.	**We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people**

	Significant risk	Findings	Conclusion
1	**Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.** If the key assumptions within the medium-term financial plan are not reasonably based then the future financial position of the Council could be at risk.	The intention is to manage the children presenting limited risk out of local authority care. New demand is difficult to predict and manage, whilst this is considered to be less of a concern, it was a factor in the overspend at the year end. The area of the Council to deliver most of the savings over the remaining two years of the MTFP is ECC with a target of almost £6m. Review of accommodation and the accommodation strategy are particular focus areas. Adults' Services has a comparatively large level of savings to be delivered and is highlighting risk in relation to the delivery; with over 50% of the target savings assessed as amber or red for 2018/19 according to the out-turn report. Quarter one reports make a slightly improved forecast. Some of the savings to be achieved are through developing new service pathways. Service redesign, particularly when working with partner organisations, will take time to implement and frequently results in slippage in implementation impacting on the associated savings. Most of the savings for the three year plan are targeted for 2018/19, reflecting the increased anticipated budget pressures. Officers have explained that there was a more robust challenge process around budget setting for 2018/19 than in previous years with a more of a zero based budget approach and the budgets for 2018/19 are considered more robust as a result. There was also a 'check and challenge' process on the savings plans providing some additional reassurance over the realism of savings plans. Reporting of the position and risks is clear through the quarterly score card reports. Clearly there is ongoing risk to delivery of the savings targets in 2018/19. **We have considered the significant risks identified in our planning, and now consider we have sufficient evidence to conclude that the risk is sufficiently mitigated and there is no impact on our VfM conclusion.**	**We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people**
2	**Sustainable resource deployment** :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. **Informed decision making**: reliable and timely financial reporting that supports the delivery of strategic priorities.	**We have considered the actions that the Council is taking to respond to concerns raised around the governance of the capital programme**. Overall we consider that officers are taking appropriate steps to respond to the matters raised in the Internal audit report on Blue School House. Officers have sought to establish whether weaknesses exist in wider project management arrangements and are taking steps to improve monitoring and management of the capital programme and capital schemes. Most of the agreed actions arising from the internal audit report are to be implemented by 31 March 2018 and so we are not able to assess the effectiveness of any new arrangements, although proposals for improving the monitoring and control of capital expenditure are reasonable. Internal audit are to report on progress to the September Audit and Governance Committee.	**We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people**

Significant risk (continued)	Findings	Conclusion
Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. **Informed decision making**: reliable and timely financial reporting that supports the delivery of strategic priorities.	For the 2017/18 financial year recording, reporting and profiling of capital programme has not been consistent throughout the Council. A capital accountant has now been appointed and she is planning to better utilise existing financial systems and implement tighter controls to ensure more integrated, consistent and accurate recording and profiling of expenditure. The 2017/18 capital out-turn is showing significant slippage against the projected outturn (47% on a £90m base), demonstrating that capital expenditure is not being properly profiled. Quarter three reporting was not accurate. There is insufficient reference in the narrative foreword of the 2017/18 financial statements to the capital programme delivery, linkages with strategic priorities or informative narrative on projects being delivered or invested in. There is little mention of the involvement of LEP in financing and delivering schemes. This is indicative of the importance given to public reporting in this area. Members have expressed concerns around the capital programme and the consistency and transparency of reporting around individual schemes. This is understandable as it remains difficult to track expenditure from approved budget to out-turn on some schemes, including where there are partnership arrangements involved such as the LEP. We have made recommendation on these matters in previous years but they have not all been implemented. The capital programme continues to grow over the next few years with several large schemes on the horizon, including over £40m within the capital programme allocated to the development partnership. Work needs to continue to ensure that there are fully embedded controls and procedures operating throughout the Council around capital expenditure and that the importance of accurate recording and profiling of spend is understood. The Council should further consider the governance arrangements around capital monitoring so that there is greater opportunity for members to be engaged and to understand the financial position on some of the more high profile capital schemes. It is now more important than ever to ensure there is transparency and consistency of public reporting supported by clear narrative, to ensure that there is trust and confidence in what is being reported in the public domain. We have considered the significant risks identified at the IRA stage, and now consider we have sufficient evidence to conclude that the risk is sufficiently mitigated and there is no impact on our VfM conclusion.	

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Other considerations	Findings	Conclusion
	Consideration of new information which emerged since we issued our Audit Plan:	
❸ Local Government Association Corporate Peer Challenge	The Council had a Local Government Association Corporate Peer Challenge in February 2018. The findings from this review were available on the Council's website shortly after the review was completed although it was not formally reported to members until June 2018. The findings are appropriately reflected in in the year-end Annual Governance Statement. A specific action plan is not going to be produced but recommendations reflected in plans going forward. Overall the report did not raise significant concerns about the Council and contained a number of positive observations and comments. The report did note that the Council strategic planning and management was overly focussed on directorates rather than there being clear leadership and planning across the Council. There were also observations about the culture of the Council. Discussion with the Chief Executive indicates that the conclusions have been taken seriously and will be reflected in changes to the Council structures currently been considered. From a financial perspective, the report provided some assurance around the level of balances, but highlighted the challenges in the savings programme, particularly around children and adults services where overspends were forecast.	**We did not highlight the Local Government Association Corporate Peer Challenge as a significant risk at our initial risk assessment as the review had not been completed. We have now considered the content of the report and we do not consider that the findings from the Local Government Association Corporate Peer Challenge present a significant risk to our VfM conclusion.**
Children Act 1989, section 20	In March a judgement was made in the Family Court around children accommodated by the Council under the act. The wording of the judgment was strong and highlighted failures in procedures operated at the Council. We have not seen a formal report made to members on the judgement but we have discussed with senior officers of the Council. Discussion with the monitoring officer indicates that there may be litigation going forward and reserves have been set up to cover these costs - but the final position is not yet known. The view of the judge and officers was that this reflected historic practices by the Council. Leadership and approaches have changed since then. The ruling reflected common practice at the time and the expectation is that there will be further similar rulings.	**We have now considered the content of the report and discussed with officers and we do not consider that the findings from the report present a significant risk to our VfM conclusion.**

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Independence and ethics

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:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	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 indicative fee for this work is £5,806 in comparison to the total fee for the audit of £124,405 and in particular relative to Grant Thornton UK LLP's turnover overall.
Audit of teacher pension	tbc		
Audit of SFA grant	tbc		
Audit of subsidiary – Hoople WME	tbc	n/a	The contract for supply of services was withdrawn and the opinion will be issued by another audit supplier. There is therefore no risk to mitigate. The fee relates to our costs incurred for the initial planning and early opinion testing and has yet to b agreed.
Non-audit related			
support to procurement of a development partner	12,000	Management threat	The work was procured in 2016/17 and is an objective analysis and any decisions will be made by management.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year.

DRAFT

Action plan to be finalised

We have identified [X] of recommendations for the Council 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 2018/19 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	● Medium	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.	• The Council will be appointing a new valuer in 2018/19 year. The Council should consider how best to ensure that the valuation of assets complies with the code. Valuations as at 31 December with a clear articulation by the valuer of movement in the last quarter should be considered as this would provide more up to date position and potentially reduce the number of subsequent valuations. • If the current practice of 1st April valuations is to continue then officers should engage more closely with the valuers to agree an approach to reflect the in year changes in value in the financial statements. The use of indices is not acceptable unless these are agreed by the valuer as a reliable approach to inflate year-end values. **Management response** Agreed- consideration will be given to amending the valuation date to the 31st of December in future years. The appointment process of the new valuer will ensure that the latest best practice guidance for such services are incorporated in the specification for the work.
2	● Medium	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.	As this is the second year that we have experienced issues in this area, the detailed working papers to support revaluations and in particular the market forces review should be reviewed by a senior officer. Challenge around the assumptions and outcomes of the valuations and reasonableness of the movement should be clearly evidenced and provided within working papers. **Management response** As part of the lessons to be learnt process following the audit there will be a review of how best to prepare for this part of the audit looking to learn from examples of best practice across the local government community.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Action plan to be finalised

We have identified [X] of recommendations for the Council 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 2018/19 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
3	●	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. .	Management should have a 'wash up' meeting following this years audit and plan how staff will support the audit next year, particularly in the higher risk areas of the accounts. **Management response** We have disclosed a greater level of detail this year due to this being the first year of preparing group accounts, we aim to implement the suggestions made in next years accounts.
4	●	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.	Next year officers should look to further streamline the group accounts notes, so that the disclosure is clearer whilst ensuring sufficient prominence. **Management response** This was the first year of producing group accounts, and the lessons to be learnt process following the completion of the audit will consider how to improve and streamline the process of producing the group accounts and the subsequent notes.
5	●	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.	There should be an evidenced review of debtors and creditors control accounts to ensure that inter-authority transactions are eliminated. **Management response** This was a one off issue due to the bank holiday weekend falling over the year end resulting in a delay in the receipt of funds through a direct debit arrangement in place with schools. This will be reviewed at each year end going forward.

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Action plan to be finalised

We have identified [X] of recommendations for the Council 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 2018/19 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
6	●	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,	Officers should reflect on the purpose of the narrative foreword and how the overall presentation can be enhanced to more fully 'tell the story' of the Council's financial arrangements in the year. **Management response** The Council will review its approach to the compilation of the narrative section of the report and ensure that it learns fro the best in the class.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Action plan VfM

	Assessment	Issue and risk	Recommendations
1	●	Officers recognise that further progress is need to improve capital reporting, accuracy and transparency. This is even more important in view of the size of the capital programme going forward.	Members of the audit committee should receive clear and specific assurance around the progress being taken to improve capital recording, monitoring and reporting. Further consideration should be given to the governance arrangements around capital programme and monitoring so that there is greater opportunity for members to be engaged and to understand the financial position on some of the more high profile capital schemes **Management response** The Audit and Governance Committee have been kept fully appraised of the ongoing process to improve the governance and transparency around the capital program.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in [x] recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations as outlined below:

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• Prior to the completion of the draft financial statements, senior officers should quality review the accounts including consideration of the Code of Practice and CIPFA LAAP bulletins. This will mitigate the risk of non-compliance with the disclosure requirements of the code. This should be built into the closedown timetable.	• We received a completed disclosure checklist. Our initial review of the checklist indicates some areas of non-compliance with disclosure requirements. This is still work in progress and so there may be valid explanations for areas of non compliance.
2	✓	• Officers should be more proactive in the commissioning of PPE valuations ensuring that all relevant information is considered and shared with the valuer as appropriate. Officers should review all changes for reasonableness prior to being reflected in the accounts. The cost of commissioning any valuations should not be a material consideration over ensuring compliance with code requirements	• Officers have carefully considered which assets to revalue this year and a significant proportion of PPE have been revalued in year. A new valuer was appointed in year. Some evidence has now been provided of the challenge process that officers went through to ensure their satisfaction with the reasonableness of valuations. Note 10 shows that there are significant movements in valuations on some assets, which following audit review are as a consequence of changed assumptions by the valuer compared to the prior year, for example yield percentages on investment assets.. Significant changes in such assumptions should be explained in the accounts either in footnotes or within significant estimates. Further detail on this matter is included in the findings section of the report. • The Council undertakes valuations as 1/4/17 whereas accounting policies are that the accounts should reflected value as at 31/3/18. A significant exercise is then required to be completed to demonstrate that there has not been a material movement in valuations/ impairment/ classification etc. in year that would materially impact on the year end valuation. A valuation as at 31/12 plus unambiguous confirmation by the valuer of material changes in the last quarter would be a cleaner approach and may result in less audit challenge at the year end.

Assessment
✓ Action completed
X Not yet addressed

DRAFT

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in [x] recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations as outlined below:

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	partial	• Officers should consider the good practice requirements of the code in relation to the narrative report. As a minimum there should be better reference to important and significant transactions within the accounts, both on the narrative reports and footnotes to specific notes.	• The narrative report does not contain information which is inconsistent with the financial statements. • The report meets minimum standards however there is further scope to enhance the content and presentation of the report. Suggestions for improvement were provided however no subsequent changes have been made: ➢ there is limited information on capital outturn ➢ No performance measure on non financial performance. ➢ Reference to the Local Government Association Corporate Peer Challenge in year which is good – however it only refers to the positive findings whereas the narrative report is supposed to be 'balanced'. ➢ No narrative provided on group performance (Hoople)..
4	✓	• The accounts contain some material figures that are provided by third parties. This include the IA 19 disclosures and information around Public Finance Initiative (PFI) funded assets. Officers should be able to demonstrate that they have considered the reasonableness of all information provided by third parties.	• A paper has been provided which articulates the challenge made to third party providers. We have yet to review this.
5	X	• The 2016/17 AFR recommended that a note should be included on the LEP showing transactions. This was not included.	• There have been no transactions with the LEP in 2017/18. There is clearly a key relationship with the LEP, for example they had a key role in approving the HCCTP business case. Council should consider the relationship with the LEP for example disclosure as a related party within the accounts.

Assessment
✓ Action completed
X Not yet addressed

DRAFT

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 are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	PPE balances should be reported on the balance sheet at their 31 March 2018 value. For PPE assets which were revalued at the start of the year and measured at depreciated replacement cost (DRC), officers uplifted the values of the assets by £9.6m in reference to a market forces review provided by the Council's valuation expert. As this uplift was not signed off by the qualified valuation expert we found it not to be compliant with the CIPFA Code. For other PPE assets not revalued at year end, officers were unable to demonstrate to us that a material difference in carrying value did not exist. In response to these issues, officers have instructed further valuations to determine a reliable estimate for the valuation of PPE at 31 March 2018.	TBC	TBC	TBC
2	When accounting for valuation increases in PPE, Councils should first consider reversing prior year impairments charged to income and expenditure before crediting the revaluation reserve. We found that there has been no reversal of impairments in 2017/18 (value £4.329m) or in the previous year 2016/17 (value £2.785m). The cumulative effect of these errors is material.	(£7,114) credit to Net Cost of Services £7,114 debit to Surplus in revaluation of non-current assets	(£7,114) credit to General Fund £7,114 debit to Revaluation Reserve	(£7,114) credit to Net Cost of Services
3	Transactions and balances with schools which are under the Council's control should be eliminated through accounting adjustments, as they represent intra-group operations. We found that £1.6m of school debtors were incorrectly included on the balance sheet in relation to schools under the Council's control.	n/a	(£1,585) credit to Debtors £1,585 debit to TBC	TBC
	Overall impact	**TBC**	**TBC**	**TBC**

DRAFT

Audit Adjustments

Misclassification and 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Grant Income	We found that £26.1m of grant and contributions income was not separately disclosed in the Grant Income note to the accounts (note 28)	The Grant Income note to the accounts should contain details of all income which falls under either of the following categories: grants, contributions and donations.	✓
Collection Fund	We found that a £0.5m contribution towards previous year's Business Rates Surplus on the face of the Collection Fund statement was incorrectly classified as West Mercia Police, where in fact it should be Central Government.	Amend the face of the Collection Fund.	✓
A number of presentational changes	Various presentational changes throughout the statements to improve transparency and compliance with the CIPFA Code and various adjustments for rounding error.	Make amendments per schedule shared with officers.	✓

DRAFT

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit & 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	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	The Council adopts a policy of not accruing for individual expenditure transactions which fall below a £25,000 de-minimis level around the year end. We estimate the effect this policy may have on total un-accrued expenditure is £1.7m. We consider that the approach adopted by the Council is completely appropriate and we are not suggesting that the accounts are adjusted for this. It us reported here for completeness.	£1,746 debit to expenditure	(£1,746) credit to creditors	£1,746 debit to Net Cost of Services	Value is an audit estimate and is not material.I
2	Officers assessed the potential difference in value for items of PPE not revalued at year end with reference to market trends. The potential difference is TBC.	TBC	TBC	TBC	Potential difference is based on market trend review not the valuation of a professional valuer.
	Overall impact	**TBC**	**TBC**	**TBC**	

Impact of prior year unadjusted misstatements

Prior year misstatements related to inconsistencies on specific assets to the asset register or valuation reports. These assets have been considered as part of the 2018/19 valuation exercise and adjustments made as part of that process and we have tied up the fixed asset register to this years valuations.

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Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit Prior year audit overrun	£124,405 £15000	tbc tbc
Audit of subsidiary company Hoople limited	£12,000	tbc
Grant Certification - housing benefits	£5,806	tbc
Total audit fees (excluding VAT)	**£tbc**	**£tbc**

The proposed fees for the year, and prior year fee variations, have not yet been approved by PSAA.
Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Audit of west Mercia energy	Tbc
• Certification of teachers pension	Tbc
• Skills funding agency audit	Tbc
Non-audit services Provision of advice to support procurement of a development partner	12,000
	tbc

DRAFT

Audit opinion

We anticipate we will provide the Group/Council with an unmodified audit report [or amend as appropriate]

Certificate not yet issued

Will insert following 18 July meeting

DRAFT

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