# Audit Findings

*Year ending 31 March 2018*

Herefordshire Council

30 July 2018

# Contents

**Your key Grant Thornton team members are:**


Jon Roberts
Partner &
Head of Assurance
T: 0117 305 7699
E: Jon.Roberts@uk.gt.com

Zoe Thomas
Manager
T: 0121 232 5277
E: Zoe.Thomas@uk.gt.com

Zak Francis
Auditor In-Charge
T: 0121 232 5164
E: Zak.Francis@uk.gt.com




The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# 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:<br>• 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<br>• The accounts 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.<br><br>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.<br><br>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:<br>- receipt of management's representation letter;<br>- review of the final set of financial statements, group accounts, MIRS and AGS reflecting adjustments.<br><br>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:<br>• 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 completed our risk based review of the Council's value for money arrangements. We have concluded that Herefordshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised within this report.<br>. |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• certify the closure of the audit | We have not exercised any of our additional statutory powers or duties.<br>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:

- receipt of management's representation letter;
- review of the final set of financial statements, group accounts, MIRS and AGS reflecting adjustments.

# 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 to reflect the higher gross expenditure. |
| 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. |

# Significant audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 1 | **Improper revenue recognition**<br>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. | **Auditor commentary**<br>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:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable<br>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**<br>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.<br>We identified management override of controls as a risk requiring special audit consideration. | **Auditor commentary**<br>We have:<br>• gained an understanding of the accounting estimates, judgements and decisions made by management<br>• tested journal entries<br>• reviewed accounting estimates, judgements and decisions made by management<br>• reviewed unusual significant transactions<br>• evaluated the rationale for any changes in accounting polices or significant unusual transactions.<br>We noted that journals clearing payroll suspense codes have been regularly posted without description. Officers have agreed to include in future.<br>No significant matters arising from our work. |

# Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| ❸ **Valuation of property, plant and equipment**<br>**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.**<br><br>**We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.** | **Auditor commentary**<br>• Review of management's processes and assumptions for the calculation of the estimate.<br>• Review the competence, expertise and objectivity of any management experts used.<br>• Review the instructions issued to valuation experts and the scope of their work<br>• Review the basis on which the valuation was carried out, challenging the key assumptions.<br>• Review and challenge the information used by the valuer to ensure it was robust and consistent with our understanding.<br>• Test revaluations made during the year to ensure they were input correctly into the Council's asset register<br>• 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.<br>**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. Officers have responded positively to the matters raised in the audit process and have undertaken significant additional work, further analysis and additional valuations.**<br>**The Council has valued a significant proportion of the asset base this year. Officers have estimated that there is a maximum understatement of £6.4m of PPE as a consequence of not undertaking further valuations. We are satisfied that this estimate is reasonable.**<br>**This is close to our assessed materiality of £6.5m. However all other errors in PPE have been adjusted and when considered in the context that this represents a very small percentage of the total value of non current assets (1%) and the extent of valuations undertaken this year we are satisfied that officers have undertaken sufficient work to demonstrate that non current assets are not materially misstated**.<br>Valuations are significant estimates and different valuers may make different professional judgments and we have seen that this has impacted on the valuation of some assets, in particular 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. We have suggested that reference to changes in basis of some valuations is referred to within the significant estimates section of the accounting policies within the accounts this year, because some valuations have changed due to changes in assumptions of a new professional valuer in addition to the usual judgements around general market conditions.<br>Officers annually complete a 'market forces' assessment to demonstrate that by valuing on a 5 year rolling programme, the accounts comply with accounting and code requirement that the balance sheet value of property plant and equipment (PPE) is not materially misstated. Indices are applied to the assets not valued and if this suggests that there has been a material change in value, then further valuations are generally required to be undertaken. Indices provided by the Valuer were used for this review. Also the Council's practice of valuing at 1st April but the need to state the value at 31 March balance sheet date requires a similar review of any in year change. Officers completed this assessment work and found that further valuations were required which were undertaken.<br>We found that Indices had actually been applied to uplift the 1.4.17 valuations on some assets on the balance sheet. This is not appropriate. |

# Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| ❸ **Valuation of property, plant and equipment**<br>**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.**<br><br>**We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.** | **Auditor commentary (continued)**<br>Several iterations of working papers were provided, errors corrected, new indices applied where required and evidence provided to demonstrate that the indices used were reasonable based on the Valuer's suggestions. Further valuations were also commissioned.<br>The Council has demonstrated that by not valuing any further assets then PPE at the balance sheet date is potentially undervalued by £6.4m. This is below our materiality and is therefore acceptable, as all other matters in relation to PPE have been corrected. We have asked for specific assurance to be provided around this within the letter of representation.<br>Indices are used as indicators but it is not appropriate to apply these to the balance sheet. Consequently the valuations uplifted by indices (DRC assets) have now been reversed and instead a desk top review has been undertaken by the Valuer. The desk top review uplifted valuation by approximately £2m whereas the original indexing had uplifted by approximately £9m. This has been adjusted<br>Officers should to engage with their valuers to ensure that similar difficulties are not encountered in 2018/19. In other councils we have seen various practices adopted to ensure PPE valuations comply with the code. Approaches include undertaking valuations later in the year, e.g. 31 December, with the valuer uplifting to the year end via a desk top review, valuing all assets over a de-minimus annually, and undertaking desk top reviews of recent valuations to ensure they remain current and providing greater assistance in the market forces review. These matters and how the Council can most effectively comply with the code in this area should be considered in the appointment process of valuers in 2018/19.<br>In addition to the matters above, we also identified errors in the accounting for reversal of impairments through the statement of comprehensive income and expenditure (CIES). Where a current year review indicates an increase in value of an asset, where there has been a previous year impairment reflected in the CIES then the impact on the CIES can be reversed. It was found that this had not been considered in in 2017/18 or 2016/17 and so an adjustment has been made in 2017/18. The asset register has been updated so that revaluation and impairment changes are now included.<br>A reversal of depreciation £3.5m on 'Plough Lane' should have occurred upon revaluation in 2015/16. However the accumulated depreciation was not reversed. This means the 2015/16 and 2016/17 carrying value on this asset was £3.5m lower than appropriate. This has been corrected in year so the 2017/18 closing balance is now accurate. We judged that this accounting appropriate in the circumstances due to its materiality and we confirmed this issue does not apply to any further assets on register. |

# Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| 4 **Valuation of pension fund net liability**<br>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.<br><br>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration. | **Auditor commentary**<br>• 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.<br>• Evaluate the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.<br>• 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.<br>• Check the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.<br>The actuary makes his assessment of the IAs19 disclosures based on the month 10 submission to the pension fund. As part of the accounts working paper, officers should reconcile the month 10 submission to the pension fund, payroll and the actuary's report to demonstrate accuracy of this significant estimate.<br>No issues arising from our work. |

# Reasonably possible audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 7 | **Employee remuneration**<br>Payroll expenditure represents a significant percentage (27%) of the Council's operating expenses.<br><br>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**<br>We have undertaken the following work in relation to this risk:<br>• evaluated the Councils accounting policy for recognition of payroll expenditure for appropriateness<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding<br>• obtained the year end payroll reconciliation and ensures that the amounts in the accounts reconcile to the ledger and through to payroll.<br>• agreed payroll related accruals (e.g. unpaid leave) to supporting documents and reviewed for reasonableness, and<br>• performed substantive analytical procedure for M1 to 12, disaggregated by month.<br>We have completed our work in this area and there are currently no issues to report. |
| 8 | **Operating expenses**<br>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.<br><br>We identified completeness of non- pay expenses as a risk requiring particular audit attention: | **Auditor commentary**<br>We have:<br>• evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;<br>• gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls<br>• 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<br>• 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<br>• 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.<br>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. We recommended that the value of the deminimus should be referred to in the accounts.<br>We have completed our work in this area and there are currently no issues to report. |

# 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 and a shareholder. It makes the position on the pension fund more transparent. Hoople is not a financially material component. | **Auditor view**<br>We have completed our work on group accounts. 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 have been made to the disclosure although no significant concerns have been identified. |
| 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**<br>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 formally considered annually, as the relationship with the NMITE changes. When the amounts involved in the 'pass through' 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.<br><br>**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**<br><br>The presentation of Hoople pension is appropriately reflected in the 2017/18 accounts. The Hoople liability is reflected on consolidation in the group accounts.<br><br>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<br>• 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<br>• Income receivable from the sale of good and rendering of services is recognised in line with the relevant conditions<br>• Collection fund income is recognised on an accruals basis | No matters arising | ● (Green) |
| **Judgements and estimates** | • Useful life of PPE<br>• Revaluation<br>• Impairments<br>• Accruals<br>• Valuation of pension fund net liability<br>• Provision for NNDR appeals<br>• Other provisions | We have referred earlier in the report to the matters arising form our review of PPE. Changes in judgements and estimates that have substantial changes in the valuation of PPE should be highlighted in this section of the accounting polices. Footnotes should be added to notes to explain the reasons where there have been material year on year changes.<br>Accounting for Schools land and buildings should be included in critical judgements as this relates to material judgements. Reference is made in other policies rather than as a critical judgement.<br>Agency accounting should be included as a critical judgement, when material | ● (Amber) |
| **Other critical policies** | | 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<br>No other matters identified in relation to other accounting policies. Our substantive testing has not highlighted any other material departures from accounting policies. | ● (Green) |

**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

# 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** | • Some changes have been made to disclosures, including removing details of non material relationships. We also noted that the register of interests was not current when we reviewed at interim, however we have seen that this is now an on line process. |
| 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, and we have requested specific representations. |
| 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** | • We have suggested additional notes and disclosures be made to the accounts. No material omissions. |
| 8 | **Significant difficulties** | • As referred to earlier in the report, there were a number of matters arising and corrections required as a result of the work on PPE. This work took longer to complete than planned.<br>• Group accounts is also a new area of review this year and the notes are fairly extensive. This is the first year of group accounts and we had not reflected this in the audit plan presented to members, as the decision to prepare group accounts was taken subsequent to the publication of our plan. |

# 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.<br><br>No inconsistencies have been identified  We plan to issue an unqualified opinion in this respect (refer to Appendix E)  Based on our review of disclosures against the code and good practice examples we identified areas where the presentation could be enhanced.  For example reference to capital outturn,  non financial performance measures and further context against strategic priorities. |
| 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:<br>• 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<br>• if we have applied any of our statutory powers or duties<br><br>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

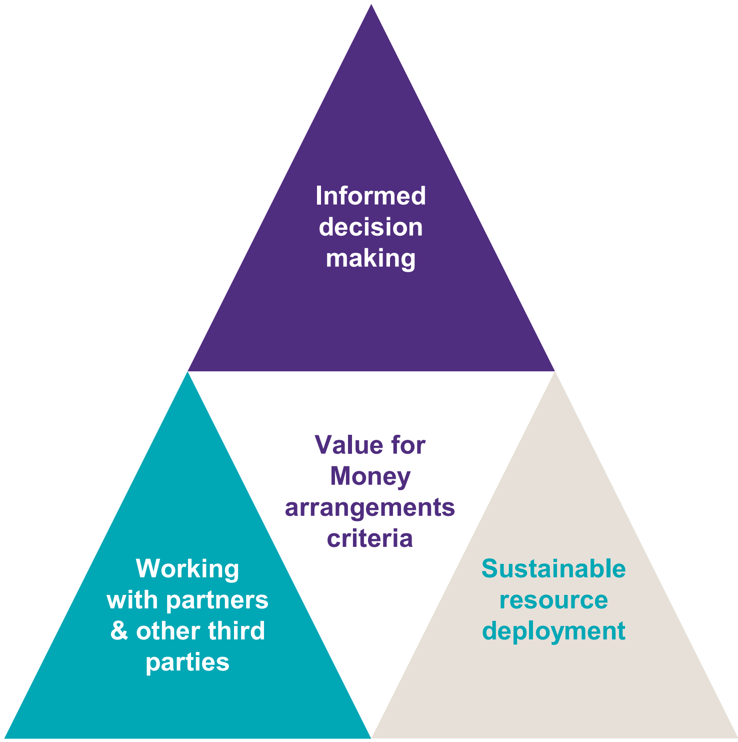
## Background to our VFM approach

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.

# 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.**<br><br>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.**<br><br>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..<br><br>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.<br><br>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.<br><br>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.**<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>**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.<br><br>**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**.<br><br>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.<br><br>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 |
|---|---|---|---|
| 2 | **Sustainable resource deployment** :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.<br><br>**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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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. | (cont) |

| Other considerations | Findings | Conclusion |
|---|---|---|
| | **Consideration of new information which emerged since we issued our Audit Plan:** | |
| 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.<br>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.<br>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.<br>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.<br>We have not seen a formal report made to members on the judgement but we have discussed with senior officers of the Council.<br>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.<br>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.** |
| Ofsted Inspection Children's Services | The findings from the June Ofsted were published on 23 July 2018. the overall conclusion was that the services 'required improvement'. The overall conclusion is consistent with that in the last inspection in 2014. | **Ofsted inspection resulted in overall rating of 'requires improvement' and, as a result, we have concluded that the risk has been mitigated and the Council has put in place adequate arrangements so support informed decision making.** |

# 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 | 5,806 tbc | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the 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 | 6,000 tbc | | |
| Audit of SFA grant | 4,000 tbc | | |
| Audit of subsidiary – Hoople<br>WME | £1k | 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. |
| **Non-audit related** | | | |
| support to procurement of a development partner | 12,000 tbc | Management threat | The work was procured in 2016/17 and is an objective analysis and any decisions will be made by management. The work does not relate to any matters reflected within the financial statements. |

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.

# Action plan

We have identified 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.<br><br>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.<br><br>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.<br><br>**Management response**<br><br>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.<br><br>Challenge around the assumptions and outcomes of the valuations and reasonableness of the movement should be clearly evidenced and provided within working papers.<br><br>**Management response**<br><br>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

# Action plan (cont)

| | 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.<br>**Management response**<br>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.<br>**Management response**<br>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.<br>**Management response**<br>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

# Action plan

| | 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. Footnotes should be added to explain significant changes in numbers year on year and significant estimates and judgements should be reviewed to reflect matters within the accounts. | 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.<br>**Management response**<br>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

# Action plan VfM

We have identified 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 |
|---|---|---|
| ● (Medium) | 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.<br>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<br>**Management response**<br>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

# 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.<br><br>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

# 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.<br>• 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:<br>➢ there is limited information on capital outturn<br>➢ No performance measure on non financial performance.<br>➢ 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'.<br>➢ 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

# 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. As referred to in the introduction we are currently checking the impact of these amendments.

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|---|
| 1 | A £9.6m revaluation entry had been put through the draft accounts (balance sheet & note 10) to uplift the valuation of DRC assets last revalued at 1.4.18. This is based on indices and not a true asset valuation performed by the expert and the approach is therefore not code compliant. A further instruction for valuations was made and the £9.6m valuation adjustment has been reduced by £7.76m. | Nil | (£7,764) land and buildings | Nil |
| 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<br>£7,114 debit to Surplus in revaluation of non-current assets | (£7,114) credit to General Fund<br>£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<br>£1,585 debit to cash | nil |
| | **Overall impact** | **TBC** | **TBC** | **TBC** |

# 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 £21.6m 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. | ✓ |
| **Termination Benefits** | The payment for 1 redundancy had been missed and the number of exit packages increased from 5 to 6.<br>Transposition error - total 1718 for 0-20k should be 172.8, not 178.2 | Amend note 25 | ✓ |
| **A number of presentational changes** | Various presentational changes, and additional footnotes 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. | ✓ |
| **Audit fees** | Grant Thornton have undertaken work in addition to the main audit and charged additional fees for the prior year. As the accounts are presented to only 1 decimal place – the fees for work not associated with the accounts are not evident.. | Footnote to be added explaining the split | ✓ |

# 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? |
|---|---|---|---|
| **Note 10** | In Note 10, reclassifications are disclosed net of historical depreciation adjustments which doesn't allow for transparency of assets reclassified, £20.0m of assets were reclassified. Prior year is not presented on a consistent basis. | therefore we recommend this is split out in the note into two rows because reclassifications and historical depreciation adjustments are individually material, | ✓ |
| **Group accounts** | This is the first year of presenting group accounts so a number of disclosure changes are suggested.<br>• MiRS needs to reflect minority interest as unusable reserve,<br>• A number of amounts are cross referred to notes in the single entity accounts but the values do not trace through.<br>• Other LT Term liabilities on balance sheet should refer to note G9<br>• The title of Note G9 Other Long Term Liabilities is not consistent with the disclosure involved. | Rather than include as a separate note disclosure could be done on the face<br>Each table should include a footnote saying notes are not prepared for the group unless they are materially different to the single entity.<br>Suggest amending title to 'Group Financial Instruments'. | ✓ |
| **Financial instruments** | page 50 of the accounts states (first bullet point) that fair values of PWLB loans have been calculated based on premature repayment rates at the end of the year. This is not an acceptable approach per CIPFA.<br>The Council have included both the premature repayment rate and the fair value using the new loan rate as fair values in financial instruments. Use of premature repayment rates as a means of measurement is not an acceptable approach to assessing fair values but this is not clear fro the accounts. | Reference to be removed<br>It should be clear in the accounts what the preferred method of valuation is to aid the reader | ✓ |

# 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? |
|---|---|---|---|
| **Accounting polices** | • Reference is not made in the accounts to the accounts being prepared on a going concern basis<br>• The value of 25k for the de-minimus under 'Accruals of Income and Expenditure' should be stated<br>• Assumptions made about estimation uncertainty: the valuation of PPE is by a new valuer and there have been new assumptions made which have impacted on the value of PPE, over and above the expected changes in market assumptions.<br>• Critical judgements: accounting judgements around schools property and agency have materially impacted on what is (or isn't) included in the accounts. These matters are referred to in other notes but not as 'critical judgments' | • inclusion of the Going Concern basis under 'Critical judgements'<br>• Value to be disclosed<br>• changes in approach should be made clear in the estimation uncertainty line accounting policy/ note<br>• Critical accounting judgements should be described in the accounts as such. | ✓ |

# 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 matters we have raised in the audit and in the previous pages relate to estimates, and we do not consider that these should be adjusted for.  No unadjusted misstatements.

### 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.

# 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<br>Prior year audit overrun | £124,405<br>£15,000 | tbc<br>tbc |
| Audit of subsidiary company Hoople limited | £12,000 | £1,000 |
| Grant Certification - housing benefits | £5,806 | tbc |
| **Total audit fees (excluding VAT)** | **£157,211** | **£tbc** |

The proposed fees for the year, and prior year fee variations, have not yet been approved by PSAA. Additional time to plan has been spent when drafting the plan on group accounts and PPE in particular. We have yet to assess the impact.

Audit fees are reported in the accounts rounded to £0.1.

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 | 3 | tbc |
| • Certification of teachers pension | 6 | tbc |
| • Skills funding agency audit | 4 | tbc |
| **Non-audit services**<br>Provision of advice to support procurement of a development partner (completion of 2016/17 agreed work) | 12 | |
| | 25 (tbc) | |

# Audit opinion

**We anticipate we will provide the Group with an unmodified audit report**

## Independent auditor's report to the members of Herefordshire Council

### Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Herefordshire Council (the 'Authority') for the year ended 31 March 2018. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Collection Fund and all notes to the financial statements, including a summary of significant accounting policies, . 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### Who we are reporting to

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

### Conclusions relating to going concern

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

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 121other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

### Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 12 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer.

The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Governance Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

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

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

### Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

## Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of other matters brought to our attention by the Authority. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

Jon Roberts
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton UK LLP
Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date to be added

Grant Thornton



**grantthornton.co.uk**