Annual Audit Letter

Year ending 31 March 2018

Herefordshire Council

August 2018

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Herefordshire Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £6,644,000, which is 1.8**%** of the group's gross revenue expenditure. Council materiality was £6,550,000.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 31 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit Subsidy Claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.
Certificate	We are unable to certify that we have completed the audit of the accounts of Herefordshire Council due to outstanding matters from the previous years.

Executive Summary

Recommendation tracking

In our audit findings report we made a number of recommendations both in relation to the accounts process and our value for money considerations. Those recommendations are not repeated in this report, however the Audit and Governance Committee should ensure that progress against those recommendations are tracked as part of the committee programme. The Audit Findings Report is published within the papers for the July Audit and Governance committee and is available on the Council's website.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts by the deadline and two months ahead of 2017.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your teams with training on financial accounts and working papers.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £6,644,000 which is 1.8**%** of the group's gross revenue expenditure. We determined materiality for the audit of the Council's accounts to be £6,550,000, which is 1.8**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration- as we consider this to be of specific interest to the user of the accounts.

We set a lower threshold of £332,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:
- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Council revalues its land and buildings on a 5 yearly basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements	As part of our audit work we have reviewed: • management's processes and assumptions for the calculation of the estimate, • the competence, expertise and objectivity of any management experts used, • the instructions issued to valuation experts and the scope of their work, • the basis on which the valuation was carried out, challenging the key assumptions, • and challenged the information used by the Valuer to ensure it was robust and consistent with our understanding, • and tested revaluations made during the year to ensure they were input correctly into the Council's asset register, • and evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Detailed findings were reflected in the Audit Findings report and are summarised below. Adjustments were made to the Property Plant and Equipment (PPE) notes, Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) as a result of the audit. Additional disclosures were included. The Council had employed a new valuer this financial year. A significant proportion of the asset base was revalued. The value had made new assumptions on a number of assets which had impacted on the valuation. Additional disclosures were requested by audit to reflect this. Some additional valuations were undertaken as a result of audit queries and are reflected in the revised accounts. Additional work was undertaken and revised working papers were supplied to demonstrate that assets not valued in year were not materially misstated. Adjustments were made to PPE due to revisions to impairments and the asset register was updated. We have made recommendations to improve the estimate process in future years.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	As part of our audit work we have: • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • evaluated the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • gained 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. • checked the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	No significant matters arising from our work.
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.	As part of our audit work we: • 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.	No significant matters arising from our work.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 31 July 2018, in advance of the national deadline.

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline. The finance team responded to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 30 July 2018.
We made a number of recommendations within our Audit Findings Report (AFR) and we suggest that the Audit and Governance Committee receive an update on the implementation of these specific recommendations.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council. Our recommendations in the AFR include suggestions to improve the content of the narrative report.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not exercised these powers.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the accounts of Herefordshire Council until we resolve outstanding matters in relation to the previous year. We have asked that the Accounts section on the Council's website should highlight this.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf. During the year new matters came to our attention and we considered the risk to the value for money conclusion. The new matters were:

- Local Government Association Corporate Peer Challenge
- Children Act 1989, section 20 judgement
- Ofsted Inspection Children's Services

We concluded that these matters did not pose a significant risk to our value for money conclusion.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed recommendations to address our findings. Implementation of these specific recommendations should be routinely considered by the Audit and Governance Committee.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Summary Findings and conclusions
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.	We noted that the Council had adequate levels of balances in comparison with its neighbours and that there had been net additions made to both revenue and capital reserves. A significant increase in capital reserves occurred in year due to the sale of the farming stock We considered the risks in relation to service areas, in particular we noted the risks to delivery of the children's services savings plans. Children's services once again overspent in 2017/18 and reducing the numbers of looked after children is an ongoing challenge. **We concluded that overall the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people.**
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 considered the actions that the Council is taking to respond to concerns raised around the governance of the capital programme.	The 'Blue School House' overspend and the subsequent internal audit highlighted the need for change in many aspects of the Councils arrangements around its capital programme and a number of recommendations for improvement were made. Officers have taken steps towards addressing the failings and reports are taken to the audit committee to update on progress periodically. There is clearly an appetite to learn form the matter and to embed robust management, reporting and governance arrangements throughout the Council. This is however still a 'work in progress'. **We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people.**

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory group audit	124,405	*131,092	124,405
Over-run		*tbc	**15,000
Housing Benefit Grant Certification	5,806	***tbc	5,415
Total fees	130,211	tbc	144,820

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)
*Fee variations will reflect the additional time spent on resolving matters around property plant and equipment and first time preparation of group accounts. Fee variations are subject to approval by Public Sector Audit Appointments Ltd. We have yet to agree the additional fee for 2017/18 for the overrun with the council before submission to PSAA.
**PSAA has yet to confirm the 2016/17 fee for the over-run.
*** the Council has asked us to complete additional work on their behalf populating the housing benefit workbooks. Fees for the additional time will be confirmed when that work is completed. This fee will be subject to agreement with PSAA

Fees for non-audit services

Service	Fees £
Audit related services: we have been asked to undertake the following for 2017/18: - Skills funding agency - Teachers pension	 TBC TBC
Non-Audit related services - Continuation of 16/17 project work to support procurement of a development partner (completion of 2016/17 agreed work)	12,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

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