



The Annual Audit Letter for Herefordshire Council

Year ended 31 March 2019

21/10/2019



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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 2019.

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 Committee as those charged with governance in our Audit Findings Report on 30 July.

Our work

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.

Materiality	We determined materiality for the audit of the group's financial statements to be £10,200,000, which is 1.4% of the group's total assets.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 31 July 2019.
Value for Money arrangements	We have completed our risk based review of the Council's value for money arrangements and issued our opinion on 30 September 2019. We have concluded that Herefordshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

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 and teachers pensions. Our work on these claims is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee separately.

Certificate

We are unable to certify that we have completed the audit of the financial statements of Herefordshire Council until we have completed our consideration of matters that have been brought to our attention by the Authority. We are satisfied that these matters do not have a material effect on the financial statements.

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, through the use of Info that enabled an effective sharing of data
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Supporting development – we provided workshops for the Governance and Audit Committee on responsibilities in their new role

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
October 2019

Audit of the Financial Statements

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 financial statements to be £10,200,000, which is 1.4% of the group's total assets. We determined materiality for the audit of the Council's financial statements to be £10,000,000, which is 1.4% of the Council's total assets. 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 retained its assets.

We also set a lower level of specific materiality for senior officer remuneration - £100,000.

We set a lower threshold of £510,000, above which we reported errors to the Audit 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 financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 was based on a thorough understanding of the 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 Financial Statements

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
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management’s processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Reviewed the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council’s asset register. • Tested a number of the valuations performed by the valuer to underlying data. • 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. 	<p>There is nothing to report in respect of our work on the valuation of land and buildings</p>
<p>Valuation of net pension liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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. • Tested the data submitted to the actuary. • Performed analytical procedures regarding the Council's share of fund assets. 	<p>There is nothing to report in respect of our work on the valuation of the net pension liability</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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
<p>Valuation of net pension liability - continued</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p> <p>The Council is a statutory member of the Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.</p>	<ul style="list-style-type: none"> • Gained an understanding of the basis on which the IAS19 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. • Considered the implications for the Council of the recent McCloud judgement - see significant findings. 	
<p>Management override of internal controls</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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 • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our work on journals, has identified that there is no authorisation process in place over the journals posted. The systems put in place by the Council do restrict who can post journals, but there is no authorisation once these are posted.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 31 July 2019.

Preparation of the financial statements

The group presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2019.

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 and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

We did note that the Council now prepares group financial statements however the Annual Governance Statement appears to be focussed on the Council with limited reference to the subsidiary company, Hoople. The code confirms that where there is a group relationship, the review of the internal control systems shall include group activities.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We are unable to issue our conclusion until we have completed our consideration of matters that have been brought to our attention by the Authority. We are satisfied that this matter does not have a material effect on the financial statements

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 risks where we concentrated our work.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	95,792	95,792	124,405
Additional fees	-	10,500	15,503
Total fees	95,792	106,292	139,908

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £95,792 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Value for Money	Additional work undertaken on the Value for Money conclusion and attendance at meetings with Council Officers.	1,500
Total		10,500

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Non-Audit related services	
- Housing Benefit Grants Certification	tbc
- Teachers Pension Certification	tbc

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.

