Herefordshire Council

Supplement to the agenda for

Audit and governance committee

Wednesday 24 November 2021

Documents published subsequent to the meeting, at the request of the committee

The Audit Findings for Herefordshire Council

Year ended 31 March 2021

24 November 2021

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AGENDA ITEM 8

Contents

Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T 0117 305 7600
E Jon.Roberts@uk.gt.com

Gail Turner-Radcliffe
Audit Manager
T 029 2034 7546
E Gail.Turner-Radcliffe@uk.gt.com

Zarak Zaman
Audit In-Charge
T 0121 232 5392
E Zarak.S.Zaman@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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. Its contents have been discussed with management.

JD Roberts

Name : Jon Roberts
For Grant Thornton UK LLP
Date : 24 November 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the 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 remotely during June-November. Our findings are summarised on pages 5 to 19. We have identified one adjustment to the financial statements that has resulted in a £0.06m adjustment to the Council's Comprehensive Income and Expenditure Statement. 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. Audit adjustments are detailed in Appendix C.

Our work is now complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting a material uncertainty in respect of Retail and specific trading related assets / sectors such as Car Parks.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of Financial Sustainability, Governance and Improving economy, efficiency and effectiveness. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2022 and after conclusion of our work on the Whole of Government Accounts.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report 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) and the Code, 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.

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 group's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our Joint Audit Plan, as communicated to you in July 2021.

Conclusion

Our audit work is now complete. See the unqualified audit opinion in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The ongoing impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements including video calling, and increased procedures required to verify the completeness and accuracy of information provided remotely.

2. Financial Statements

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.

Materiality levels remain the same as reported in our audit plan in July 2021. We detail in the table opposite our determination of materiality.

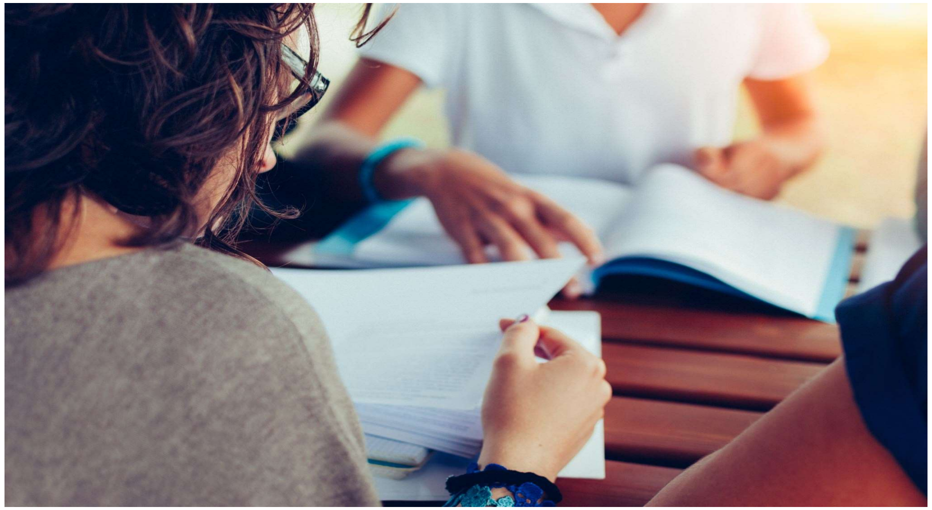
	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.1m	£7m	1.8% of gross revenue expenditure
Performance materiality	£5m	£4.9m	70% of materiality
Trivial matters	£0.35m	£0.35m	5% of total headline materiality

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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. We have also considered the impact of Covid-19 on the risks of and opportunities for management override of controls and we are satisfied that opportunities have not been increased, although we will ensure that our audit work considers the accounting for unusual transaction streams such as Covid-19 grants and any new estimates or judgements around these. We therefore identified management override of control, in particular journals, consolidation adjustments, management estimates and transactions outside the normal course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • considered the impact of IT audit findings on the journals posted, and extended our journal testing to include journals posted by non-finance team employees; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. Our sample testing has not identified any significant issues in respect of journals posted in year. We include a recommendation in Appendix A relating to journal entries and follow up a prior year recommendation in Appendix B.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition ISA (UK) 240 Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council. We have not made any changes to this assessment during the audit and based on our findings.
Risk of fraud related to expenditure recognition Public Audit Forum- Practice Note 10 Practice Note 10 states that as most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition. Having considered the expenditure streams of Herefordshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council. We have not made any changes to this assessment during the audit and based on our findings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and investment properties The Authority 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 Authority 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. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. There have been no issues noted in our work that we need to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The Authority'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.
The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£282.3m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

Commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtained assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

There have been no issues noted in our work that we need to bring to your attention.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £334.7m	Land and buildings comprises £261.5m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£73.2m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. 90% of total assets were revalued during 2020/21. The Council's valuer has disclosed a material uncertainty in respect of Retail and specific trading related assets / sector such as Car Parks. The total year end valuation of land and buildings was £ 370.4m, a net increase of £31.2m from 2019/20 (£339.2m).	We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included: • an assessment of management's expert, who we found to have relevant experience and professional qualifications; • review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; • consideration of the appropriateness of any alternative site assumptions; • assessing the impact of any changes to valuation method, which we considered to be immaterial; and • an assessment of the adequacy of disclosure of estimate in the financial statements. The financial statements include disclosure of material uncertainty relating to Retail and specific trading related assets / sectors such as Car Parks. We will highlight this disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification of qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. There have been no issues noted in our work that we need to bring to your attention.	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £282.3m	The Council's net pension liability at 31 March 2021 is £282.3m (PY £260m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £13m net actuarial gain during 2020/21.	In assessing the estimate, we have considered the following: • the actuary's experience, competence and professional qualifications; • the actuary's approach, through the use of PwC as an auditors expert, used to assess the methods and assumptions used (see table on the next page for consideration of the assumptions adopted); • the completeness and accuracy of the underlying information used to determine the estimate by comparing it to source records and other data provided through the audit; • the impact of any changes to valuation method – none were noted; • the assurances provided by the auditor of Worcestershire Pension Fund over the process and controls in place at the Fund over the information provided to the actuary; • the adequacy of disclosures of estimate in the financial statements; and • the reasonableness of the Council's share of the pension assets.	Light Purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £282.3m - continued	The Council's net pension liability at 31 March 2021 is £282.3m (PY £260m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £13m net actuarial gain during 2020/21.	See table below. There have been no issues noted in our work that we need to bring to your attention.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.10%	2.10% to 2.20%	●
Pension increase rate	2.70%	2.70%	●
Salary growth	4.20%	2.50% to 4.20%	●
Life expectancy – Males currently aged 45 / 65	24.4 / 22.7	22.5-24.7 / 20.9-23.2	●
Life expectancy – Females currently aged 45 / 65	27.1 / 25.1	25.9-27.7 / 24.0-25.8	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	As part of our work we have considered: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • the Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the Comprehensive Income and Expenditure Statement (CIES). • the adequacy of disclosure of judgements in the financial statements.	We reviewed the Council's assessment of whether it was acting as a principal or agent and concluded that its assessment and judgements were reasonable.	Light Purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £9.6m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £9.6m, a net increase of £0.3m from 2019/20.	This area has received considerable audit focus across the sector this year. We have benchmarked the Council's current MRP, which indicates that the MRP is in line with other authorities. There have been no issues noted in our work that we need to bring to your attention.	Light Purple

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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.

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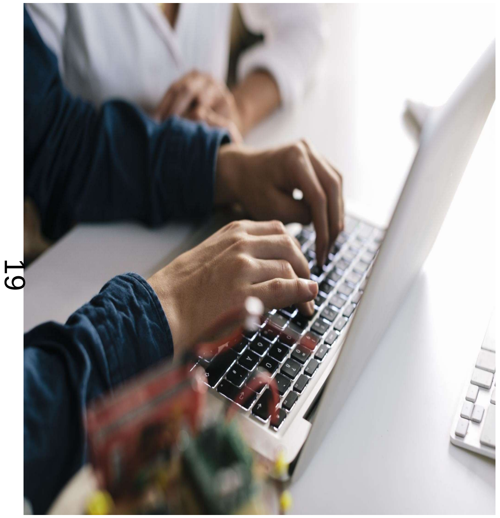
Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment confirmations. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting estimates and financial statement disclosures. Our review of the Council's accounting policies is on-going and a verbal update will be provided to the Audit and Governance Committee.
Audit evidence and explanations/ significant difficulties	The majority of information and explanations requested from management have been provided, noting that our work continues in certain areas.

2. Financial Statements - other communication requirements

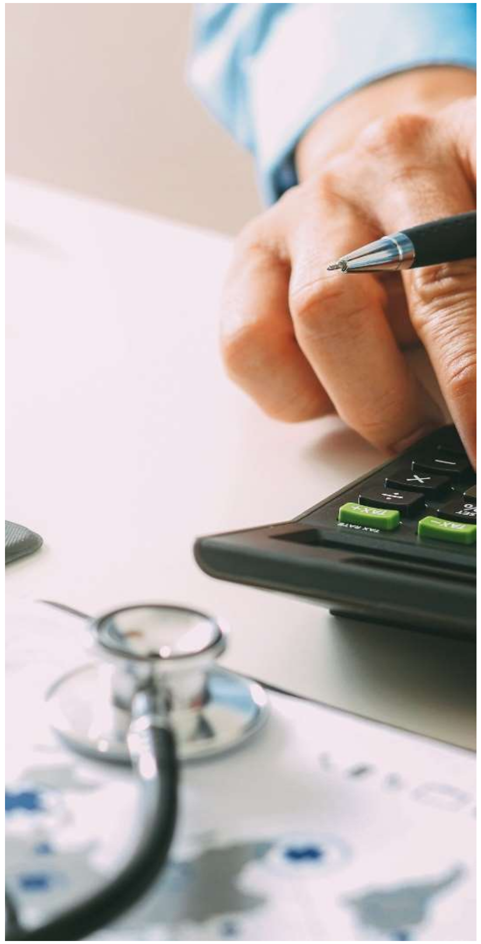
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.
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 audit instructions. Note that work is not yet completed as we are awaiting the audit instructions from the NAO and management are yet to receive the centrally provided data collection tool. We understand that the WGA consolidation pack is not expected to be provided to audited bodies for completion prior to audit review until December 2021 at the earliest.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Herefordshire Council in the audit report, due to VFM work being ongoing and WGA consolidation procedures remaining outstanding as outlined above.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money. Where these risks are linked we will coordinate our response.

Risk title: Financial Sustainability
Risk description: Whilst the Council has secured a sound financial base, recent events raise risks that the Council can not effectively plan and manage its resources to meet these financial pressures. More specifically, significant additional financial pressures have arisen as a result of :

- The Court judgement for Children's Services
- The write back of the by-pass costs

Risk response: We will therefore:

- Review the financial pressures identified by management when setting the 2020/21 budget and the planned mitigations
- Review the process for identifying the budget gaps in the medium term and the plans the Council has in place to address these shortfalls
- Explore the impact of the unforeseen financial pressures i.e. the costs of setting up the Improvement Board in Children's Services and the reversal of the by-pass decision
- Explore significant in year overspends such as Looked After Children's Services

Risk title: Governance
Risk description: there is a risk that Council has not made informed decisions and is not effectively managing its risks, as reflected in previous years VfM audits. In 2020/21 there were changes to the officer leadership team which will be finalised in 2021/22.
Risk response: We will therefore:

- Review how the Council responds to the independent review of its Public Realm contract
- Review the Council's response to the internal review of the HCCTP
- Understand the impact that the court judgement had had on the Children's Services Department and review the Council's actions taken to date
- Consider the impact of the changes in the management team in 2020/21 on the governance arrangements

Risk title: Improving economy, efficiency and effectiveness
Risk description: there is a risk that the Council is not using its cost and performance data to improve the way that it manages and delivers its services
Risk response: We will therefore:

- Review the Council's response to the internal review of the HCCTP
- Review how the Council is responding to the regulatory engagement regarding Children's Services

5. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

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Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. Independence and ethics

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 group. The following non-audit services were identified which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,500	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 fee for this work is £5,500 in comparison to the total fee for the audit of £156,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	13,698	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 fee for this work is £13,698 in comparison to the total fee for the audit of £156,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
	19,198		

Appendices

A. Action plan – Audit of Financial Statements

We have not identified any recommendations for the year ended 31 March 2021.

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

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We identified the following issue in the audit of Herefordshire Council's 2019/20 financial statements, which resulted in one recommendations being reported in our 2019/20 Audit Findings report.

We have followed up on the implementation of our recommendation and note this is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Journals Authorisation** We reported in the 2018/19 and 2019/20 Audit Findings Report that the journals process did not have appropriate authorisation. Management confirmed that this would be reconsidered.	Users with the ability to post journals have limits set within Business World which limit the size of journals that can be posted. In addition, Management have a monthly review process outside of the ledger to ensure that journals posted are appropriate.

Assessment

✓ Action completed

X Not yet addressed

C. 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 ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £
Audit fees – an additional accrual is required to increase the fee to be in-line with the proposed fee in the Audit Plan	0.06m	-0.06m	0.06m

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	Adjusted?
Officers Remuneration – Disclosure is required of the number of Officers receiving remuneration in excess of £50k, split into bandings. During the audit we noted that two Officers had been incorrectly inputted into the £140,000 - £145,000 banding as opposed to the correct banding of £130,000 to £135,000.	✓
During the audit we noted that the Related Parties note had a disclosure error as the Herefordshire Council's share of the West Mercia Energy had been disclosed as a negative value.	✓
Various other minor disclosure updates were made to the financial statements to improve readability or correct more trivial findings.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £	Reason for not adjusting
PPE revaluation – during the audit we noted that incorrect build costs had been used in the valuation of one asset by the valuer.	-	Dr Revaluation Reserve £0.096m Cr Land and Buildings £0.096m	-	Not material
Overall impact	-	-	-	

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements.

D. Fees

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

Audit fees	Proposed fee
Scale fee	£95,792
Additional Fee Proposed	61,000
Total audit fees (excluding VAT)*	£156,792

* See next page for a breakdown. Note that PSAA distribution of £18,900 and MHCLG additional funds of £49,381 have recently been provided to support the Council in this area.

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Non-audit fees for other services	Proposed fee
Audit Related Services	
Certification of the Housing Benefits Return	13,698
Certification of the Teachers Pension Return	5,500
Total non-audit fees (excluding VAT)	**£19,198**

Details of variations in final fees from the proposed fee per the audit plan

The fees do not reconcile to the financial statements. We have provided a reconciliation below.

- fees per financial statements £95,792 (with rounding £0.1m)
- Accrual for additional fee – see Appendix C £61,000 (with rounding £0.061)
- total fees per above £156,792 (with rounding £0.16m)

Audit fees – detailed analysis

Scale fee published by PSAA	£95,792*
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors - The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£2,500*
Enhanced audit procedures for Property, Plant and Equipment	£3,000*
New standards - You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust.	£2,500*
Enhanced audit procedures for Pensions	£3,000*
Covid-19	£19,159
Additional value for money fee	£5,000
Audit fee 2019/20	**£130,951**
2019/20 factors not carried forward	(£24,159)
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£25,000*
Increased audit requirements of revised ISAs	£20,000*
Local risk factors	£5,000*
Total audit fees (excluding VAT) [sum of * items]	**£156,792**

E. Audit opinion

Our audit opinion is included below.

Independent auditor's report to the members of Herefordshire Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Herefordshire Council (the ‘Authority’) and its subsidiary (the ‘group’) for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Accounts, the Statement of Group Accounts (Introduction and Basis of Consolidation), the Notes to the Statement of Group Accounts and the Notes to the Collection Fund. 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 2020/21.

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 2021 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. 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.

E. Audit opinion - continued

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 1.48 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Group's land and buildings as at 31 March 2021. As, disclosed in Note 1.48 to the financial statements, retail and specific trading related assets, such as car parks, continue to be faced with an unprecedented set of circumstances caused by Covid-19. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the 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.

E. Audit opinion - continued

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 obtained in the audit 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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.

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Opinion on other matters 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, 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

E. Audit opinion - continued

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, 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 Chief Finance Officer. The Chief Finance 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance 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 Chief Finance Officer is responsible for assessing the Authority's and the group'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 there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

E. Audit opinion - continued

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:
    - the identification, evaluation and compliance with laws and regulations;
    - the detection and response to the risks of fraud; and
    - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:
    - Journals and transactions outside the course of business.
    - management estimates in particular those relating to land and buildings, investment property and the net pension fund liability valuations.

- Our audit procedures involved:
    - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
    - journal entry testing, with a focus on unusual and high risk journals made during the year and accounts production stage;
    - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;
    - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

E. Audit opinion - continued

- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

E. Audit opinion - continued

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 Herefordshire Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

E. Audit opinion - continued

Use of our report

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.

F. Audit letter in respect of delayed VFM work

Councillor Shaw

Herefordshire Council

Plough Lane

Hereford

HR4 0LE

Dear Councillor Shaw

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022 .

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Jon Roberts

Partner

grantthornton.co.uk

Questions on 2020/21 Statement of Accounts - NS

P12;p84 Adults and communities underspend 2.0m –due to reducing expenditure? Why?

Mainly reflecting the impact of Covid 19 such as grant funding towards the Contain Outbreak Management Plan (as reported to general scrutiny committee in June 2021) reducing the net outturn position, in addition you can see in the same table that £3m of Covid-19 general grant funding reduced the 2020/21 outturn position.

Sorry, still not clear. Was A+C expenditure reduced due to falling claims/expenditure or was A+C expenditure increased over budget but paid for by significant Covid related grants (which is, I think, what you are suggesting?

The latter, the 2020/21 adults and communities gross outturn was £101m being £11m higher than the approved gross budget due to increased grant income funding increased costs

P13;p85 Top of page first bullet point –due to be handed over to city in August 2021 But Report revision date is v22 16/11/21 should this statement have been updated?

The station approach construction site has been handed over to Cityheart and they are managing the closure of that construction contract.

Sorry, my point being that the report could have been updated, given it was revised later – or are ALL future events reported in that way? A thought for the future might be to use the phrase "to be completed/handed over in the next financial year" or similar which avoids the confusion?

Noted and agreed, corrections can be made, in this instance I think the existing wording is still acceptable

P34;p106 Operating leases -1.20(b) Council as lessor. My concern in respect of leases to, say, Halo where rent holidays ae being given or where rent has been backloaded with soft starts. How do these practises correspond with the stated policy and what assurance can be given that the values are not being mis-reported? Are the lease sums lost then being picked up as debt write-offs?

During 2020/21 lease charges were raised in line with lease agreements, if a decision is made to negate the charge a credit note is raised and this is reflected in the note. No decision was made to grant Halo a rent holiday in the 2020/21 accounts. The accounts note shows the contractual position. If the debtor is unable to pay a bad debt provision is made and this may lead to a write off.

So a question to the 151 officer might be "How many credit notes for rent and service charges have been raised and what was their value? I now appreciate that the decision in respect of the rescheduling of Halo rent charges was made on 6/5/2021. Was this not retrospective and therefore should be treated as a post balance sheet event? Or is it not deemed significant enough?

Significant post balance sheet events / decisions would need to be reflected, the quoted decision date has been updated to December 2021 (no decision has been approved to date)

P48;p120 Capital Grants unapplied (9.3m) Capital financed by grants and contributions 3.6m I don't understand what this relates to?

Capital grants unapplied is a usable reserve of capital grant funding that records receipts in the year (£9.3m) and as grant conditions are met they are released to the general fund, £3.6.

P52;p124 Business rate smoothing reserve. (9.2m) No change – why? Business rates have decreased due to covid grants. I would anticipate that some of this reserve is released?

The 2020/21 Covid 19 business rate reliefs were funded by central government grant

Will this apply to 2021/22as well?

Yes

Settlement monies – where do these arise from (Amey?) where were they transferred out to?

Yes, the transfer out was a repayment in 2020/21

Where was it transferred to? Can I see this in the accounts?

Only disclosed in note 5 to the accounts

New reserve Adult social care integration 1.6m. Does this represent unspent social care precept?

This is to fund planned future revenue spending

But is equivalent in value to the social care precept?

This represents carried forward Better Care Fund & Improved Better Care Fund monies from joint working with the Clinical Commissioning Group

Learning Disability (1.1m) ??

This is to fund adults and communities future cost commitments

Recovery and Invest Fund (0.5m)??

This is to fund costs associated with the establishment of a Covid 19 recovery and investment fund, reported to Cabinet in July

Unused grants carried forward 32.2m are these ALL covid related?

£23.8m is specifically Covid 19 related, the bulk being the grant received for business rate reliefs

P53;p125 Nature of Expenses Disclosure – why the increase in amortisation?

Increase in REFCUS, depreciation , **amortisation** (I have calculated as it is not given) and impairment

19/20 1.2 + 17 + **5.9** +2.6 =26.7

20/21 0.4 + 15.8 +**14.2** +6.5 = 36.9

The impairment figure tallies with the movement in usable reserves analysis on p48;p120 of £6.5m as does the depreciation charge.

This reflects the decapitalisation of assets of £10.9m following the decision to abandon two traffic mitigation schemes (being Hereford Transport Package - HTP (western bypass), and South Wye Transport Package – SWTP (southern link road)), as disclosed in note 10

P58;p130 2.3m from 38.7m invested =5.9% net yield?

This calculation compares the total net income from investment assets in 2020/21 to the total investment asset valuation as at 31.03.2021

P59;p131 Bad debt provisions up from 7.4m to 10.4m –do they include any lease or service charge write-offs from our commercial rental portfolio?

Bad debt provision doesn't include write offs, the significant increase in 2020/21 represents £1.3m increase in relation to charges to adults and £1m in relation to council tax charges

P60;p132 Pensions liability shown as £282.3m does that include Hoople liability &West Midlands Power Consortium liability?

Yes

P64;p136 Debtors NHS bodies increased from 1.2 to 4m? Any aged (over 90 day) debt?

£0.2m of this debt balance was over 90 days old as at 31.03.2021

Debtors increased substantially from 34.9 to 52.2m Are debtor days the same ie t/o increase or what is the reason for the **50% increase in debts?**

In addition to the increased NHS debt capital debtors increased by £13.9m, being shell store and broadband grant debtors

Table 14 net movement in creditors (3.2) to (32.9) Non-cash movements Can you explain? 20m increase in depreciation, amortisation and impairment (again) can that be unpacked?

The £32.9m is the movement from £43.7m current creditors as at 31.03.20 to £76.6m as at 31.03.21, as shown in table 18 queried below, partly due to £14.6m new creditors being monies held on behalf of others (NMiTE & BEIS)

P66;p138 Table 18 Creditors: Trying to get my head around a (creditor) in brackets .This is money owed to us. As it is in brackets it is positive sum owed to us? Why have creditors increased by 33m –that must be nearly 75%?

Creditors here are values on our balance sheet so equal and opposite to the income and expenditure account, so brackets means monies owed to us as at 31.03.21. In addition to the agency monies mentioned above we had additional £8.8m of capital creditors as the year end and £15.0m BEIS creditors in relation to Covid 19 business support grants

P69;p141 Trading Operations Retail Properties in Hereford City Centre

Turnover ie income of 1.4m before expenses?

Asset revaluation movement of 6.4m as a decrease in value? Is this an impairment (previous questions). What are these buildings? What are they, what is there net asset value before and after the impairment? How was the impairment agreed?

Expenditure is shown positive which suggests that it is negative ie the authority has spent 700,000 on these properties –is that correct?

This relates to Widemarsh street properties and the Maylord estate. Of the £6.4m £5.9m is a downward revaluation of Maylords that was an existing freehold asset, the downward valuation

was calculated using the latest forecast rental data as at 31.03.21. The spend mainly represents service charges in relation to Maylords.

Can you remind me what the Authority paid for Maylords and what it is valued at in the 20/21 accounts?

The purchase price was £3.9m and the valuation as at 31.03.21 was £3.3m with the limitations disclosed in note 10 the accounts ("material valuation uncertainty was contained to retail and specific trading related assets/sectors such as car parks, where we continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base critical judgements")

P76;p148 Paid compensation for loss of office on retirement – was that a contractual payment of £120k? How was that authorised?

The payment was contractual it was authorised by the Monitoring Officer and S151 officer in consultation with the leader

P77;p149 2019/20 and 2020/21 exit packages were 28 and 19 respectively. How does that compare to previous years or a rolling five year average (or any other indicator)

2018/19 was 25 2017/18 was 44 and 2016/17 was 42 (average 32).

P83;p155 Shaw Homes contract Note expiry of 2033/34. Does asset return to council after this date?

Four of the property assets within this contract revert to council ownership at contract end

Does Shaw have any responsibility to maintain these properties and their assets prior to their return – does our property services dept inspect these?

They do, I have asked others to confirm what checking processes are followed

P84;p156 Liabilities Shaw healthcare balance outstanding was 6.8m with a 0.3m payment made during the year. At this rate takes 23 years to pay down balance. But contract has only 13 years to run. Is there a balloon payment? Is there an accrual or a reserve to deal with this obligation? Is the 0.3m particularly low? Are we not utilising these places appropriately (something for scrutiny, perhaps?)

The £0.3m increases annually to repay the £6.5m over the remaining 14 financial years (2034/35 is a part final year)

Understand that now.