

# The Annual Audit Letter for Herefordshire County Council

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**Year ended 31 March 2013**

22 October 2013

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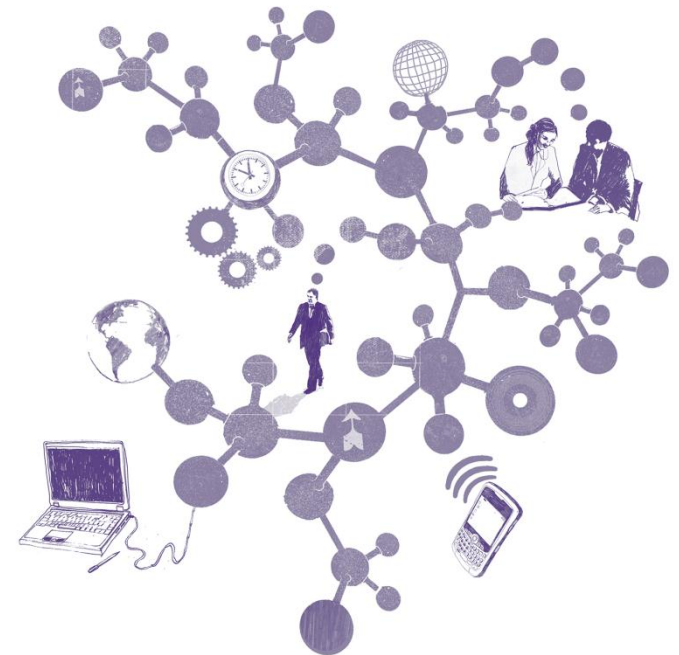
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# Section 1: Executive summary

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# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Herefordshire Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 20 September 2013.

## **Responsibilities of the external auditors and the Council**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 5 March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- a qualified "except for" conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as a result of the fact the Council's arrangements to safeguard children were judged inadequate by Ofsted in October 2012.
- an unqualified opinion on the Council's Whole of Government Accounts submission

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. However we are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

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# Key Issues for the Council

## Key areas for Council attention

We highlight here four key issues from the audit perspective which we believe the Council will continue to need to focus on in the coming year.

### Financial Position

The Council faces some significant financial risks which need to be addressed urgently. The Council is all too aware of the current and future challenges, such as an ageing population and significant reductions in central government funding which will only increase the current pressures on budgets. However the Council's reserves are much lower than other similar councils and some of its programme of savings has been identified relatively late. Useable reserves have fallen from £29.3 million in 2008/09 to £19.7 million in 2012/13 and of this balance £5.5 million relates to school reserves. This gives the Council less headroom.

The Council made a deficit of £1.4 million in 2012/13, caused mainly by the continued overspending on Adult Social Care of £5.9 million. The financial position would have been worse were it not for some one off mitigations, such as income from the sale of West Mercia Supplies (£0.85 million). Early in 2013/14, the Council discovered that it had counted grant income of £3.8m twice. The response was to call a Special Council Meeting to address the issue which necessitated further savings to be made in 2013/14. The Council consequently needs to tighten the controls over the budget setting process to prevent such problems re-occurring

Reports to the October Cabinet forecast a £3.9 million overspend in 2013/14 mainly due to a projected overspending of £4.3 million in the Adults Wellbeing directorate. If the predicted overspend crystallises, the Council's general fund balance will fall well below the Council's own target level of £4.5 million and therefore additional savings will need to be made in 2014/15 to replenish the balance. This will impose further financial pressures in 2014/15 in addition to the £12 million savings already required. It is therefore vital that the Council draws up a plan to address the forecast deficit. Looking ahead, the Council needs urgently to reconsider its future role and what it wants to deliver as a Council; and where further savings can be made to ensure the sustainable delivery of statutory services.

### Adult Social Care

For several years the Adult Social Care budget has been overspent and the overspends have continued to rise each year, in part due to the practice of adding undelivered savings from one year into the budget for the following year. In 2012/13 the budget was overspent by £5.9m. The main reason for the overspend was the failure to deliver very ambitious savings targets. Review of the undelivered savings schemes shows that some schemes were unrealistic or were cost avoidance schemes which would only reduce additional demand for services. This indicates that the scrutiny and sign off process in relation to proposed savings schemes, particularly in relation to Adult Social Care, should be improved in order to ensure savings are delivered by the directorate.

The final budget outturn in 2012/13 was an improvement on that forecast to Cabinet earlier in the year, due in part to action taken to reduce expenditure but also due to the fact that the in-year forecast was inflated by client costs which were no longer valid. A lot of work has been undertaken to cleanse data contained in these forecasts but further improvement is needed.

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# Key Issues for the Council

The Council also needs to establish a working commitment accounting system in Adult Social Care so that managers have a better understanding of the financial consequence of decisions made; a point made by external auditors four years ago.

The Council has taken steps to strengthen its budget setting processes in Adult Social Care following previous external audit criticisms that it was unrealistic. The Council now appears to be giving greater priority to carrying out the reforms to Adult Social Care delivery needed to achieve a balanced budget but this will take some time to deliver. When compared to similar councils, expenditure on older people is less than average per head of those over 65, but expenditure per head of adults aged between 18-64 is consistently in the highest 20% of councils for adults with mental health needs, learning disabilities and physical disabilities. This needs to be examined further.

The Council is also taking steps to ensure greater stability in senior management in this key area. Capacity and stability in management has remained an issue across the Council but this area has been particularly affected. Adult Social Care remains a vital area for Members to closely monitor

## Waste Disposal

The Worcestershire and Herefordshire Waste PFI contract with Mercia Waste was set up in December 1998. It was predominantly based around a residual waste facility for which planning permission was subsequently not granted. Since 1998, refurbishment and development of existing services has taken place as well as the Councils attempting to secure planning permission for a residual waste facility. In February 2012 the Councils agreed parameters, including financial ones, which must be met before a variation is approved. In July 2012 permission was granted to Mercia Waste for a residual waste facility in Hartlebury. There are now complex issues for the two Councils to consider in relation to;

- achieving value for money from the contract and potential variations or any alternative waste disposal provision;
- considering the impact of PFI credits and changes to the government policies on landfill
- taking into account, and balancing, the views and interests of taxpayers; and
- ensuring any variation is within the legal powers of the Councils

We understand that the Council is in the process of considering these issues.

## Safeguarding Children

An unannounced inspection by Ofsted of the Council's arrangements to safeguard children was carried out in September 2012 and these arrangements were assessed overall as "inadequate" across all three Ofsted review categories. An improvement notice was issued by the Parliamentary Under Secretary of State in February. The Council drew up an improvement plan in October and set up a multi agency Improvement Board with an independent Chairman.

The Council has made several significant changes to address the issues set out in the Ofsted report and there has been regular reporting on progress against the Improvement Plan, including a report to Cabinet in September. However there is still much to do, not least in addressing the large number of temporary staff employed in key posts. The Council has stated that it hopes to achieve an adequate assessment in 2014/15 year.

## Acknowledgements

This Letter has been agreed with the Chief Finance Officer and will be presented to the Audit and Governance Committee in November 2013.

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

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## Section 2: Audit of the accounts

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# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

The Council presented us with draft accounts on 28 June 2013. In last year's Annual Audit Letter to the Council, the external auditors reported significant concerns in relation to the quality of working papers and speed of response to audit queries. Although the quality of the accompanying working papers and responsiveness have improved this year, the Council still has some way to go to match the standard consistently achieved by the best councils locally in this area. We will continue to work with Hoople and the Council to ensure continued improvement in this important area, including sharing some positive examples we found in Hoople and elsewhere.

### **Issues arising from the audit of the accounts**

The draft accounts were of a good quality helped by a robust quality review process. This was a clear improvement on the previous year. We identified some adjustments to the accounts presented to audit which Officers have agreed to adjust for. None of these adjustments affected the Balance Sheet or the cost of services in the Comprehensive Income and Expenditure Statement. We also requested some adjustments to improve the presentation of the accounts.

## **Annual Governance Statement**

We concluded that the Annual Governance Statement was consistent with our knowledge and complied with all relevant guidance. There is some scope to further develop the Statement against best practice such as including action plans for the significant controls issues raised.

### **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Governance Committee at the Council). We presented our report to the Audit and Governance Committee on 25 September 2013.

We issued an unqualified opinion on the Council's 2012/13 accounts on 27 September 2013. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.



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## Section 3: Value for Money

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# Value for Money

## Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our overall conclusion is that the Council faces very significant financial risks, particularly in relation to Adult Social Care where a large overspend of £5.9 million occurred in 2012/13 and a further overspend of over £4 million is forecast in 2013/14. If the forecast overspend in 2013/14 transpires, this will put additional pressure on the Council's balances, which are already comparatively low. It has proper arrangements in place for securing financial resilience and in particular it has strengthened budget setting and monitoring arrangements. Further details are provided in our Financial Resilience report.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our overall conclusion is that although there has been some success in delivering savings over the last two years, the Council still faces significant challenges due to Adult Social Care not delivering its savings targets and not keeping within budget. In addition the Council received an inadequate assessment from Ofsted last October in relation to its arrangements to safeguard children. It has subsequently been working hard through its Improvement Board to address the issues raised.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013 except for the arrangements to safeguard children.

# Appendices

# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and that there were no fees for the provision of non audit services.

## Fees

|                                    | Per Audit plan<br>£ | Actual fees<br>£ |
|------------------------------------|---------------------|------------------|
| Audit Fee                          | 164,803             | 164,803          |
| Indicative grant certification fee | 10,600              | To be confirmed  |
| <b>Total fees</b>                  | <b>175,403</b>      | <b>175,403</b>   |

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

## Reports issued

| Report                            | Date issued       |
|-----------------------------------|-------------------|
| Audit Plan                        | 5 March 2013      |
| Audit Findings Report             | 20 September 2013 |
| VfM – Financial Resilience Report | 10 October 2013   |
| Annual Audit Letter               | 22 October 2013   |



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