



The Audit Findings for Herefordshire Council

Year ended 31 March 2020

July 2021



Contents



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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council and group, including the delivery of front-line activities to the vulnerable, administration of grants to businesses and the closure of community facilities. These operation challenges have been coupled with uncertainty over future funding for the Council due to a loss of core income streams as well as additional costs introduced in delivering services in line with emerging government guidance.</p> <p>The Finance team have also faced significant challenges in continuing their day to day operations, including remote access to systems and providing support to other service areas to prioritise support for the vulnerable and local businesses.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 4 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to develop new remote access working arrangements, including remote accessing financial systems, video calling and alternative procedures over the verification of completeness and accuracy of information produced by the entity. These have proved to allow the audit to progress but, somewhat inevitably, have extended the amount of time required for the audit.</p>
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Headlines

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This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

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. *Note CIPFA/LASAAC is the joint Board involving the Chartered Institute Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee that establishes the structure for Local Authority accounts.*

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 July-January . Our findings are summarised on pages 5 to 15. We have identified disclose only adjustments to the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require material changes to the financial statements, subject to the following outstanding matters;

- AGS – receipt of updated version
- receipt of management representation letter; and
- review of the final set of financial statements.

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

Our anticipated audit report is shown in Appendix E.

Headlines

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	See page 19 to 25 for details of the work undertaken. Our value for money opinion will be qualified in this respect.
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> 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. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion. As the matter that had resulted in certificates of completion being withheld for a number of years had recently been resolved, we were also able to certify completion of all prior year audits where this was the case.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 and will be discussed at Audit Committee.

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;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for Hoople; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 4 May 2020, to reflect our response to the Covid-19 pandemic.

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.

Materiality in plain English

The concept of audit materiality is a difficult technical area, so the following paragraphs seek to explain the matter in a more user-friendly manner to the non-accountant.

Materiality is the 'margin of error', or degree of tolerance that external auditors work to. The concept is adopted because it is not considered possible or desirable for the auditor to check every transaction a body makes. The auditor is required to obtain reasonable evidence that the accounts are free from material misstatement.

Financial statements, or overall, materiality is set by applying a % to an appropriate benchmark that the user of the accounts is most interested in. In Herefordshire's case we used expenditure as our benchmark to establish this headline materiality and set the % at 1.8% (near the top of our firm's 1-2% expected range).

Performance materiality (PM) is a subset of the overall materiality amount, which we use as an indicator of the risk that there could be material misstatements once our work is underway. That is, if we find misstatements above PM but below overall materiality we know we have to do further work to establish whether the overall materiality might be exceeded.

We can also identify and work to a lower tolerance for matters that are 'material in nature' – in Herefordshire's case we have identified senior officers' remuneration in this category, due to the inherent heightened public interest in this area.

We do not report matters below our triviality threshold unless they are 'material in nature'.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£6.71m	£6.7m	Materiality has been based on 1.8% of the Group and Authority's gross expenditure – we show the Group amount to 2 decimal places to confirm it is different to the Council
Performance materiality	£4.7m	£4.7m	Our performance materiality has been set at 70% of our overall materiality.
Trivial matters	£0.3m	£0.3m	This is set a 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

The revenue cycle includes fraudulent transactions

Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 26 June 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

We rebutted the risk at the planning stage of our audit. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable

No circumstances arose that indicated we needed to reconsider this judgement.

Significant audit risks

Risks identified in our Audit Plan

Auditor 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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our work on journals, has identified that there is no authorisation process in place over the journals posted. The systems put in place by the Council do restrict who can post journals, but there is no authorisation once these are posted. See action plan at appendix A for recommendation. This recommendation was also raised in the prior year.

Valuation of property, plant and equipment

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:

- 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;
- wrote 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;
- we challenged management about their treatment of the waste plant;
- tested revaluations made during the year to see if they had been input correctly into the group's asset register; and
- 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.

No issues were identified from our audit work on the valuation of land and buildings.

We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts and this will include having a clear understanding of key assumptions within the estimate.

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate 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 Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority 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;
- undertook procedures to confirm the reasonableness of the actuarial assumptions, including the experience item, made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- reviewed the McCloud position;
- challenged the Actuary on the experience item figures included in the IAS19 report;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- obtained assurances from the auditor of the 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.

No issues have been identified from our audit work on the valuation of pension fund net liability. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.

Other audit risks

Risks identified in our Audit Plan

Auditor commentary

Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a significant number of individual transactions throughout the year, including transactions involving new-starters, grade changes and leavers, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified occurrence of payroll expenses as a risk requiring particular audit attention.

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- documented our understanding of processes and key controls;
- undertaken walkthrough of key controls to assess whether those controls were in line with our documented understanding;
- obtained the year end payroll reconciliation and ensures that the amounts in the accounts reconcile to the ledger and through to payroll;
- agreed payroll related accruals (e.g. unpaid leave) to supporting documents and reviewed for reasonableness, and
- performed substantive analytical procedure for M1 to M12, disaggregated by month.

There are no issues to bring to your attention.

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of non-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention.

We have:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- documented the accruals process and the controls management has put in place, challenging key underlying assumptions, the appropriateness of the source data used and the basis of calculations; and
- obtained a listing from the cashbook of non pay payments made in April and tested to ensure that they have been charged to the correct year and to confirm accuracy, occurrence, classification and cut off.



There are no issues to bring to your attention.

Significant findings – other issues





This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>We have reviewed the accounting policies for the Council to gain assurance that unadopted accounting standards have been appropriately disclosed within the statement of accounts</p>	<p>We noted in the draft statement of accounts that the disclosure has been appropriately dated as per the amended timeline. We continue to review the disclosures in line with the guidance and will report any findings to management</p>


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £6.8m (£2.4m short-term, £4.4m long-term)	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	<p>We have:</p> <ul style="list-style-type: none"> reviewed the appropriateness of the underlying information used to determine the estimate; considered the reasonableness of increase in estimate; and confirmed the adequacy of disclosure of estimate in the financial statements. 	 (green)
Investment property valuation process	In accordance with IFRS 13 investment property should be measured at fair value at the reporting date.	<ul style="list-style-type: none"> investment property per the financial statements note 10 totals £33.8m; the Council formally revalued all of its investment property as at 31st March 2020; we performed coverage sampling on Investment assets by testing a total amount of £27.5m of assets. The valuations were agreed to the valuer's report. We also examined the type of the property and the rental income earned to gain assurance over the property's classification; 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; wrote 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; and we are satisfied that the Investment property value included within the financial statements is not materially misstated. 	 (green)





Assessment

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








Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £339.2m	<p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 1.48.</p> <p>The Council formally re-values its land and buildings on a rolling programme to ensure they are re-valued at least every 5 years, however in accordance with the Code all land and buildings values are reviewed annually for material changes and re-valued at 31st March if necessary. Valuations have been carried out externally by Wilks, Head and Eve. Valuations of land and buildings were carried out using the methodologies and bases of estimation set out in the professional standards of RICS.</p> <p>Surplus assets are valued at their "highest and best use". All other assets are valued at historical cost, including infrastructure and Vehicles, Plant and Equipment.</p>	<p>We have:</p> <ul style="list-style-type: none"> made an assessment of the valuer; considered the completeness and accuracy of the underlying information used to determine the estimate; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; we challenged management about their treatment of the waste plant; and reviewed the adequacy of disclosure of estimates in the Financial Statements. 	 green





Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability	<p>The Council's net pension liability at 31 March 2020 is £260m (PY £269m) 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 these scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in the intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We reviewed the detail of your assessment of the estimate, considering the:</p> <ul style="list-style-type: none"> assessment of management's expert, Mercers; completeness and accuracy of the underlying information used to determine the estimate; reasonableness of the Council's share of LGPS assets; reasonableness of the overall increase in the estimate; and adequacy of the disclosure of the estimate in the financial statements. <p>External auditors are provided with assurance in the form of an auditor's expert report from PwC to assess the assumptions made by the Actuary, the table below sets out the key assumptions:</p>	 (green)
Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.30%-2.40%	
CPI	2.1%	2.10%	
Pension increases	2.1%	2.1% - 2.2%	
Salary growth	3.6%	Dependent on employer	
Life expectancy – Males currently aged 45 / 65	24.2 / 22.6	22.5 – 24.7 / 20.9 – 23.2	
Life expectancy – Females currently aged 45 / 65	27.0 / 25.0	25.9 – 27.7 / 24.0 – 25.8	

Assessment

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

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>PPE Valuation material valuation uncertainty</p> <p>The Covid-19 pandemic commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in financial markets and the market for other assets.</p> <p>This led to the Royal Institute of Chartered Surveyors (RICS) issuing guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. The Council's draft statement of accounts did not include a material valuation uncertainty disclosure and it was our view, as external auditors, that such a disclosure should be included.</p>	<p>The Council formally revalues its land and buildings on a rolling five-year basis to ensure that the carrying value is not materially different from fair value.</p> <p>The Covid-19 pandemic outbreak commenced within the last two weeks of the 2019-20 financial year and created a large uncertainty in a number of markets. This led to RICS issuing guidance to its members that a material valuation uncertainty should be included within the valuer's report and subsequently in the statement of accounts. The Valuer's report and draft account reflected this material valuation uncertainty as expected.</p>	<p>It is the view of the auditor that a material valuation uncertainty for the PPE valuation should be included in the accounts to reflect the uncertainty that existed at the balance sheet date. This has been included within the Financial Statements as appropriate.</p>

Significant findings – going concern

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).

Going concern commentary

Management’s assessment process

The Council’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

Auditor commentary

We have subjected the 2020/21 budget, Medium Term Financial Strategy and cash flow forecast to May 2022 to detailed scrutiny and in our consideration of the appropriateness of management’s use of the going concern assumption.

The Section 151 officer has produced an assessment of the Council’s use of the going concern assumption. We have reviewed this and the underlying support and concur with his opinion that the going concern basis is appropriate.

In only exceptional circumstances would we expect a local authority not to prepare its accounts on a going concern, in line with the Code and the public sector adoption of the going concern assumption.

In 2020/21 the Council expects to achieve a balanced budget and the Council’s usable reserves at 31 March 2020 stood at £134m.

The Covid-19 pandemic has resulted in a reduction of income in 2020/21, some of which has been covered through government support. The Council have set a balanced budget for 2020/21, although this will require savings to be made. This position is after taking into account the Government Grant that the Council has received for Covid-19.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures to date.
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 to date.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment balances.
Disclosures	Our review found no material omissions in the financial statements
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Herefordshire Council in the audit report, as detailed in Appendix E. Prior years certificates have also been closed.</p>
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue our opinion in the final Audit Findings Report.</p>

Value for Money

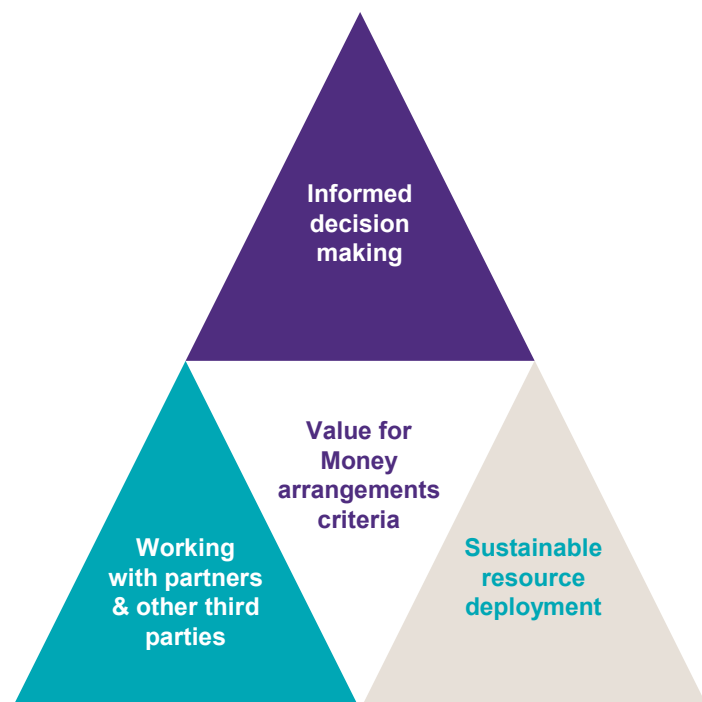
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 28 January 2020.

We have continued our review of relevant documents up to the date of giving our report, and have **identified one further significant risk where we needed to perform further work.**

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial sustainability
- Capital programme
- Governance arrangements

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 25.

Overall conclusion

We note that there are several issues arising within the Capital Programme and Children's Services – see pages 21 to 25 for further details. Our value for money conclusion will therefore be qualified in this respect.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p>The significant risk identified was financial sustainability. If the key assumptions within the Medium-Term Financial Strategy are not reasonably based, then the future financial position of the Council could be at risk.</p> <p>Audit work proposed to address this risk: we will discuss with Officers the key assumptions in the Medium-Term Financial Strategy and consider supporting evidence, particularly around looked after children as this appears to be an area where there has been consistent pressures against the budget.</p>	<p>The MTFS for 2019/20 -2021/22 was presented to Council on 15 February 2019 and a revenue budget of £151,092 was approved for the 2019/20 financial year. This MTFS included savings for 2019/20 of £3.6m which was achieved during the year.</p> <p>In June 2020, the Council reported an outturn position of £150.5m which agreed to the draft financial statements. This resulted in a small underspend against budget and the General Fund Balance increased by £5.9m to £81.4m.</p> <p>On 26 November 2020, Cabinet received a paper showing the impact that Covid-19 has had on the financial position as at September 2020. This shows that the Council are forecasting an outturn of £172m against a budget of £157m meaning a forecast year end position of an overspend of £15m, £10.8m being directly attributable to Covid-19. Officers are currently updating the MTFS and are exploring savings schemes to mitigate this overspend.</p> <p>The original budget for the Children & Families Directorate was £30.8m and £18.6m specifically in relation to looked after children. The reported outturn for 2019/20 was £32.3m and £20.6m for looked after children. The overall overspend for the Directorate was £1.4m, however £1.9m was the overspend on looked after children.</p> <p>The reason for the increase is both the increase in numbers and costs associated with each case as the cases are becoming more complex.</p> <p>Ofsted undertook a focused visit in December 2019 and as a result of this, the service will require additional support to address the findings raised.</p> <p>Whilst the Council continues to operate under significant financial pressures, in particular due to the impact of Covid-19, it has effective arrangements in place to routinely monitor its budget and has a good track record of delivering the required savings. We therefore conclude that overall the Council has appropriate arrangements in place to manage its financial sustainability. However, the impact of Covid-19 is not yet fully known. Consequently, the Council will need to maintain and strengthen its financial monitoring arrangements to ensure that funding and spending pressures are identified and acted upon swiftly.</p>

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Findings

The significant risk identified related to the Council's capital programme. There has been a number of issues identified in recent years around the capital programme. Whilst the Council is responding to the issues, we consider that this represents a significant on-going risk to our vfm conclusion. The audit work proposed to address this risk is that we will consider the actions that the Council is taking to respond to concerns raised around the governance of the capital programme. We will also consider the governance of capital projects in support of NMiTE.

To address the issues highlighted in previous years, the Council employed a Consultant to undertake a review of the governance arrangements around the capital programme. The brief provided to the Consultant was reviewed and found to be comprehensive.

The consultant provided the S151 Officer with a series of findings and where these could be implemented immediately, were done so. Other longer-term recommendations are currently being worked through by the Management team.

In our 2018/19 Audit Findings Report, we reported that there was a delay in procurement around the by-pass however we issued an unqualified opinion based on the fact that as no contract had actually been awarded, there was no loss to the Council. A 'pause and review' process was undertaken and a review of the options surrounding the by-pass were examined. In December 2020, Cabinet agreed to formally stop construction of the by-pass and in the Council meeting on 20 January, with £11.3m being written back to revenue after the capital write back.

A major contract performance review was undertaken on behalf of the Council and the findings from this were taken to Cabinet on 24th September 2020. The review specifically focused on the Public Realm Services and Property and Facilities management service contracts provided by the Council's contractor. The review highlighted that there were concerns over performance monitoring, financial monitoring and contract compliance monitoring. Concerns were also listed under:

- risk management - as the risk register does not sufficiently log actions related to risks;
- relationship management - as there was "little constructive tension" between the two parties leading to a lack of competitive dialogue and the contractor not always providing 'proactive support or the collaborative behavior that would be expected from a strategic partner' and a lack of clear demarcation between the Council and its contractor, as both sides were co-located in the same office; and
- change management - as the framework agreements were not included in the contracts register.

Concerns were also highlighted around the Council's internal governance, whereby the Council did not appear to be adhering to the contract procedure rules, when commissioning works outside the core programme.

There were further concerns about the Council's 'lack of clarity' around managing the contract and commissioning further work. Key recommendations arising from this report were:

- build technical knowledge within the Council - the Council relies on its contractor for technical assistance which limits the Council's ability to scrutinise or monitor effectively;
- improve internal communication and education – the Council needed to better understand the contract in order to achieve value for money;
- increase the involvement of the Council's procurement team – to assist with governance and provide expertise;
- set up a contract management framework; and
- consider an appropriate contract management system.

The Cabinet member for infrastructure and transport proposed that a progress review be brought back to Cabinet after six months. Whilst the Council is working on implementing these recommendations, the six-month review suggested by Cabinet has not been achieved.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p>The significant risk identified related to the Council's capital programme. There has been a number of issues identified in recent years around the capital programme. Whilst the Council is responding to the issues, we consider that this represents a significant on-going risk to our vfm conclusion.</p> <p>The audit work proposed to address this risk is that we will consider the actions that the Council is taking to respond to concerns raised around the governance of the capital programme. We will also consider the governance of capital projects in support of NMiTE</p>	<p>The s151 Officer also had concerns over a specific contract and therefore commissioned a review by Internal Audit. The contract relates to the Hereford City Centre Transport Package (HCCTP). The s151 Officer's concerns had arisen as this was a long term contract and given the issues raised over the Public Realm contract, wanted assurance that the nine project objectives would be delivered within budget. A position statement was issued by Internal Audit on 25 September 2020 and the review was paused at that point. The position statement highlighted a number of issues, the main issue being the raising of compensation events (i.e. invoice variations). The s151 Officer decided to commission a different review into this particular contract, by using individuals who had no background knowledge about prior issues with the Council's contractor. The Assistant Director Corporate Support and Head of Information Compliance and Equality therefore undertook the review. The report produced highlighted a number of weaknesses with regards to the way in which the Council manages and monitors the contract. Several recommendations were made and a highlight report was taken to Cabinet in July 2021. The Cabinet was also informed in July 2021 that there will now be insufficient budget to complete the remaining elements of the programme. These recommendations will need to be taken into account by the Council and a lessons learnt exercise undertaken to ensure that these issues do not flow into future contracts awarded by the Council.</p> <p>Of particular concern is the number and value of compensation events that have been issued by the contractor, alongside weaknesses in governance arrangements over the contract.</p> <p>Actions taken by the Council to address the recommendations were set out in the Cabinet papers in July 2021 and included creating a contract management and commissioning resource within the Corporate Centre, with the commissioning role reporting to the Monitoring Officer and the contract management role reporting to the Chief Finance Officer.</p> <p>We have no issues to raise in relation to NMiTE.</p> <p>In light of the concerns raised over the contractual arrangements and the findings identified from the internal investigations, we have concluded that the Council does not have appropriate arrangements in place over its capital programme. Our vfm conclusion will therefore be qualified in this respect.</p>

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p>The significant risk identified was governance arrangements. Following the Authority's political change, new policies will be considered and implemented. It is likely that significant political decisions will be taken and there is a consequent need to ensure that the governance arrangements supporting such decisions remains sound.</p> <p>Audit work proposed to address this risk: we will discuss with Officers the impact that the political change has had and consider how this has been reflected in the governance arrangements in place.</p>	<p>Following the 2019 elections, a three-way coalition between 'Herefordshire Independents', 'It's our County' and the Green Party were formed. This resulted in new Cabinet positions and new members now holding senior positions.</p> <p>Discussions were held with the Chief Executive, S151 Officer and Monitoring Officer to discuss the impact of the political change. The Council had procedures in place to provide training to the new Administration as this is a typical change in local government.</p> <p>Officers agreed that the new Administration appears to be working as a collective and the Cabinet Officers like the support of the full Cabinet so have been sharing information through the Cabinet briefing more than has been happening in the past.</p> <p>An on-going training programme is being developed to address training needs as they arise.</p> <p>Overall we conclude that the new Administration has settled into a coalition and is accepting Officers' guidance and advice when needed.</p>

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
During our audit we were informed by the s151 Officer that a case relating to Children's Services was being heard at the High Court. We therefore identified a risk that the decision made by the Court would be at the detriment of the Council.	<p>The case relates to four siblings who had been placed in care by the Council. Whilst in care, one of the children health deteriorated and the child ultimately passed away. The case was brought against the Council due to a number of concerns over the treatment of the children by the Council spanning a number of years and the handling of the decisions over the sick child.</p> <p>Within the judgement, Mr Justice Keehan stated:</p> <p><i>"My strongest criticism must be directed at this local authority. In the whole of my professional life I have rarely encountered such egregious and long-standing failures by a local authority. The worst of it is, I cannot after the closest possible enquiry, understand why or what motivated the local authority to fail these children, this mother and the interveners as appallingly and for as extended a period of time. The whole history of the role of this local authority in the lives of these children is highly inexplicable. The only matter which is clear to me is that it did not have the welfare best interests of the children at the heart of its decision-making, such as it was"</i> (paragraph 226)</p> <p><i>"This must call into question whether this local authority's children's services department is fit for purpose. That is a question which is not for me to answer. I can say that they had failed these children in an extraordinary manner over a prolonged period of time."</i> (paragraph 227)</p> <p>The Council has developed an Assurance and Improvement Strategy and an Independently chaired children and families Improvement Board and this was approved in an extraordinary meeting of the Council was held on 27 April 2021.</p> <p>We have therefore concluded that the Council does not have appropriate governance or performance management arrangements in place over the children's services department. Our vfm will therefore be qualified in this respect.</p>

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

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 Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.




	Fees £	Threats identified	Safeguards
Audit related			
Certification of Education Skills Funding Agency	3,000	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 approx. £3,000 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall.
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 approx. £5,500 in comparison to the total fee for the audit of £95,792 and in particular relative to Grant Thornton UK LLP's turnover overall.
Certification of Housing Benefit Claim	7,000 tbc	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is approx. £7,000 in comparison to the total fee for the audit of £95,792 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. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.

Action plan

We have identified one recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>Journals authorisation</p> <p>We reported in the 2018/19 Audit Findings Report that the journals process did not have appropriate authorisation. Management confirmed that this was to be implemented in Business World. This has not occurred during 2019/20. We would therefore repeat our previous recommendation that the Council consider its authorisation of journals.</p>	<p>We therefore recommend that management look to increase the priority of the authorisation process or put in place mitigating controls until this process can be implemented.</p> <p>Management response</p> <p>We will reconsider this recommendation. Currently posting restrictions and authorisation outside the general ledger controls are in place.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Appendix B

Follow up of prior year recommendations

We identified the following issues in the audit of Herefordshire Council's 2018/19 financial statements, which resulted in two recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journals authorisation – During the course of our testing we noted that none of the journals posted to the financial system were subject to an authorisation process. The risk is that this could result in a material misstatement in the financial statements. From discussions with management we note that the financial system has restrictions in place so that only appropriate staff can post journals. We understand that management are looking to introduce an authorisation process in the future.</p> <p>We therefore recommend that management look to increase the priority of the authorisation process or put in place mitigating controls until this process can be implemented.</p>	<p>Management confirmed that this was to be implemented in Business World. This has not occurred during 2019/20. We would therefore repeat our previous recommendation that the Council consider its authorisation of journals.</p>
✓	<p>The Council now prepares group financial statements however the Annual Governance Statement appears to be focussed on the Council with limited reference to the subsidiary company, Hoople. The CIPFA accounting Code confirms that where there is a group relationship, the review of the internal control systems shall include group activities.</p> <p>We therefore recommend that management look to expand the Annual Governance Statement in future years to cover the group activities.</p>	<p>The Annual Governance Statement has been expanded to cover the group financial statements.</p>

Assessment

✓ Action completed

X Not yet addressed

Appendix 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
One element of the Minimum Revenue Provision (MRP) is a reduction in MRP due to overprovision in previous years. The overprovision adjustment was understated by £505k for each of the three years to 31 March 2020.		Dr Capital Adjustment Account £1.5m Cr General Fund £1.5m	Nil impact
A grant was received relating to Covid-19 funding in March 2020. This grant had been treated as a grant received in advance rather than in-line with guidance for this to be treated as income in the year of receipt.	Cr non-specific grant income £5.7m	Dr Creditors £5.7m	£5.7m

Appendix C

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
PPE - Disposals	Disposal amount of St Weonard's primary school was incorrectly recorded by £500k in the fixed asset register as net book value less an amount in the revaluation reserve	Adjustment required	✓
Officers' Remuneration	One Officer incorrectly banded as £145-£150k instead of £150-£155k. Also, 2018/19 bandings not consistent with the published 2018/19 financial statements.	Adjustment required	✓
Exit packages	Exit packages in the financial statements did not agree to the underlying supporting workpapers. Agreed working papers show correct figures.	Adjustment required	✓
Capital Financing and Expenditure	PPE Additions of £554k was overstated in the Capital Financing and Expenditure note due to loan repayments being misclassified. An additional line was needed in the note.	Adjustment required	✓
Grant Income / Dedicated Schools Grant	Two miscodings were identified which had overstated grant income and children's expenditure by £554k (one caused overstatement by £873k and the other an understatement of £283k). The net impact on the note was nil. In addition, figures did not cast due to rounding's.	Adjustment required	✓
Audit fees	Audit fees incorrectly stated as fees for non-statutory work should be separately disclosed.	Adjustment required	✓
Related parties	Disclosure within the significant long term contracts section is incorrectly stated for Balfour Beatty	Adjustment required	✓
Remuneration notes	Difference in one Officer between payroll evidence and the financial statements	Adjustment required	✓
Accounting policies	Removal of policies which are no longer relevant	Adjustment required	✓
Presentation	Wording throughout the financial statements to be updated to ensure correctly and appropriately reflects Council's background and processes.	Adjustment required	✓

Appendix C

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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 £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
None				

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of expenditure cut off discovered an accrual for Housing Benefits expenditure for 2018/19 that was paid out 2019/20 has not been made. From the items we tested this identified an error of £23,588, which when extrapolated across the population is £570,927.	(571)	(571)	(571)	As this is an extrapolated error we would not expect an adjustment
During our grants testing we identified a £25k credit to the fees and charges grants section was miscoded and should have been a credit to expenditure. Expenditure and income have therefore been overstated. The extrapolated error is £554,026.	(554)	(554)	(554)	As this is an extrapolated error we would not expect an adjustment
Overall impact	1,125	1,125	1,125	

Appendix D

Fees

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

Audit fees	Proposed fee	Final fee
Council audit	95,792	95,792
Fee Variation – see next page	35,159	35,159
Total fee – excluding certification	130,951	130,951
Grant certification	22,198	22,198
Total audit fees (excluding VAT)	£153,149	£153,149

The fees reconcile to the draft financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Education Skills Funding Agency	3,000	3,000
Certification of Teachers Pension Return	5,500	5,500
Housing Benefit Grant Claim	13,698	13,698
Total non- audit fees (excluding VAT)	£22,198	£22,198

A. Herefordshire Council audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£95,792	
Increased challenge and depth of work	2,500	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.
Pensions – valuation (IAS) 19	3,000	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE - valuations	3,000	The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations
New standards/developments	2,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we responded to the introduction of IFRS16.
Covid-19 and client delays	19,159	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have also engaged an auditor's expert to review investment property valuations in light of Covid-19. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Additional Value for Money fee	5,000	Additional fees following further work required to complete the Value for Money work
Total proposed final audit fees	£130,951	

Proposed Audit opinion – all new content

Independent auditor's report to the members of Herefordshire Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Collection Fund 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 2019/20.

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 2020 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 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

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

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 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and

Proposed Audit opinion

Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment properties and the Authority's share of the pension fund's property investments

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 Authority's and group's land and buildings, investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 1.48 to the financial statements, the outbreak of Covid-19 saw many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, there was a shortage of market evidence for comparison purposes, to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. 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 Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 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.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we 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

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- 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.

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

As explained more fully 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 2019/20, 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 group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority 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.

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

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, except for the effects of the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

Our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- During the year ended 31 March 2020 the Authority experienced several issues with regards to its capital programme, including slippage in delivery and overspends. In response, the Authority commissioned a number of reviews, both internal and external. These reviews identified a variety of failings in the Authority's arrangements, including:
 - poor or non-existent record keeping;
 - non-compliance with procurement processes;

Appendix E

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- insufficient documentation being retained to support compensation claims against contractors; and
- inadequate processes for dealing with variation orders on contracts.

Having considered the findings of these reviews, together with the results of our audit work, we have concluded that these matters highlight weaknesses in the Authority's arrangements for managing its capital programme. They are evidence of weaknesses in proper arrangements for:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance; and
 - procuring supplies and services effectively to support the delivery of strategic priorities.
- A High Court judgment was issued in March 2021 which set out a range of historic failings in the Authority's children's social care services which were ongoing in the year ended 31 March 2020, including attitudes, culture and professional practice being well below the standards expected, as well as incorrect legal advice being given to management. Having considered the findings of this judgement, together with the results of our audit work, we have concluded that these matters highlight weaknesses in the Authority's arrangements for delivering children's social care services. They are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness

in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice (2015), having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice (2015).

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.

