



The Annual Audit Letter for Herefordshire Council

Year ended 31 March 2020

July 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Herefordshire Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report in July 2021.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £6,700,000 and the group to be £6,710,000, which is 1.8% of the gross cost of services.

Financial Statements opinion

We gave an unqualified opinion on the group's financial statements in July 2021.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

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

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

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

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for in relation to the governance over the capital programme and Children's Services. We therefore qualified our value for money conclusion in our audit report to the Council in July 2021.
Certificate	We certified that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Code of Audit Practice in July 2021.

Working with the Council

Working remotely presented a number of challenges, for auditors and officers, including remotely accessing financial systems, video calling and additional procedures to verify the completeness and accuracy of information produced by the Authority. This resulted in considerably more audit time than initially planned.

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

Grant Thornton UK LLP
July 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the group financial statements to be £6,710,000, which is 1.8% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £6,000,000, which is 1.8% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £6,700,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>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;</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any issues in respect of the Covid-19 significant risk.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>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:</p> <ul style="list-style-type: none"> • 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 	<p>No circumstances arose that indicated we needed to reconsider this judgement.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk and 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 considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>We have raised a control recommendation in respect of journals as journals posted by finance users do not require authorisation prior to being posted to the system and journals can be posted without a narrative being entered.</p> <p>Our testing of journal entries made in year did not identify any issues.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>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.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> 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. 	<p>No issues were identified from our audit work on the valuation of land and buildings.</p> <p>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.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p> <p>The Council is a statutory member of the 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.</p>	<p>We:</p> <ul style="list-style-type: none"> • 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. 	<p>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.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements in July 2021.

Preparation of the financial statements

The Council presented us with draft financial statements on 3 July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The nature of the new remote access working arrangements, i.e. remote accessing financial systems, video calling and verifying the completeness and accuracy of information produced by the Council, resulted in additional time to complete the audit and, consequently, the cost of delivering the final audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit and Governance Committee in July 2021.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website and alongside the draft Statement of Accounts in June 2020.

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

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold in July 2021.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Code of Audit Practice in July 2021. 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.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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.</p> <p>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 conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>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.</p> <p>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.</p> <p>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 this was discussed, with £11.3m being written back to revenue after the capital write back.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
	<p>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:</p> <ul style="list-style-type: none"> • build technical knowledge within the Council - the Council relies on its contractor for technical assistance which limits the Council's ability to scrutinise or monitoring 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. <p>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.</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 contract. 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 conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>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>	<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>

A. Reports issued and fees

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

Fees

	Fees £
Council scale fee	95,792
Additional proposed audit fee	35,159
Total fees (excluding VAT)	130,951

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	July 2021
Annual Audit Letter	July 2021

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £95,792 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

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	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Teacher's pension return	£5,500
- Certification of Housing Benefits return	£13,698
- Certification of Education Skills and Funding Agency return	£3,000

Non-audit services

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

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



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