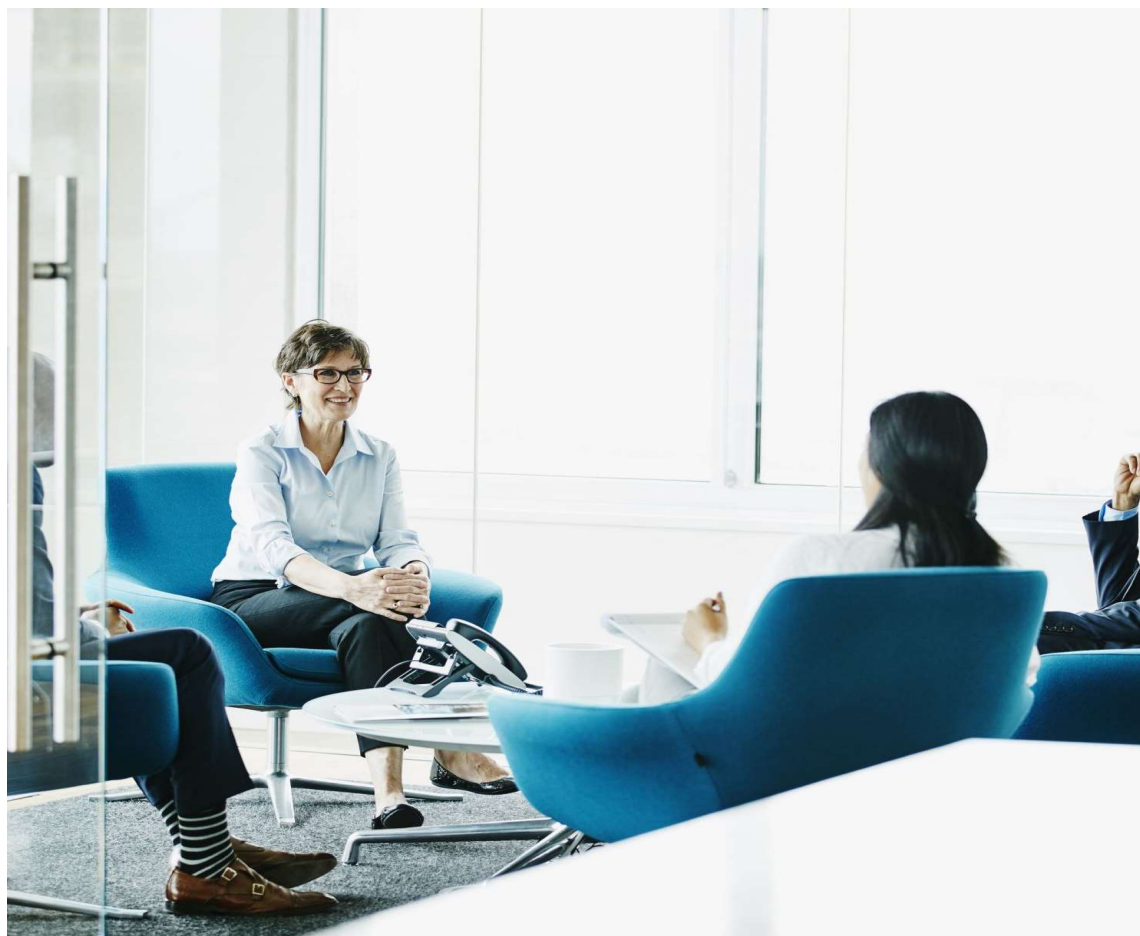


The Audit Findings for Herefordshire Council

Year ended 31 March 2021

24 November 2021



Contents



Your key Grant Thornton team members are:

Jon Roberts

Key Audit Partner

T 0117 305 7600

E Jon.Roberts@uk.gt.com

Gail Turner-Radcliffe

Audit Manager

T 029 2034 7546

E Gail.Turner-Radcliffe@uk.gt.com

Zarak Zaman

Audit In-Charge

T 0121 232 5392

E Zarak.S.Zaman@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

JD Roberts

Name : Jon Roberts

For Grant Thornton UK LLP

Date : 24 November 2021

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1. Headlines

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

Financial Statements

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

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

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June-November. Our findings are summarised on pages 5 to 19. We have identified one adjustment to the financial statements that has resulted in a £0.06m adjustment to the Council's Comprehensive Income and Expenditure Statement. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Audit adjustments are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;

- Review of Annual Governance Statement;
- Property, Plant and Equipment – resolution of queries;
- Debtors – testing of long-term debtors;
- Pension liability – resolution of queries;
- PFI liability – resolution of queries;
- Fees and charges – final review of investment income;
- Employee benefit testing – queries outstanding with payroll team;
- Financial Instruments – review of disclosures;
- Minimum Revenue Provision and Capital Financing Requirement;
- Hoople final signed accounts and Audit Findings Report;
- Final quality review procedures;
- 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 and the financial statements we have audited.

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

1. Headlines

Value for Money (VFM) arrangements

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

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

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

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

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

Statutory duties

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

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

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

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

Significant Matters

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

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 24 November 2021, as detailed in [Appendix E].

Acknowledgements

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

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

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

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



2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We have also considered the impact of Covid-19 on the risks of and opportunities for management override of controls and we are satisfied that opportunities have not been increased, although we will ensure that our audit work considers the accounting for unusual transaction streams such as Covid-19 grants and any new estimates or judgements around these.

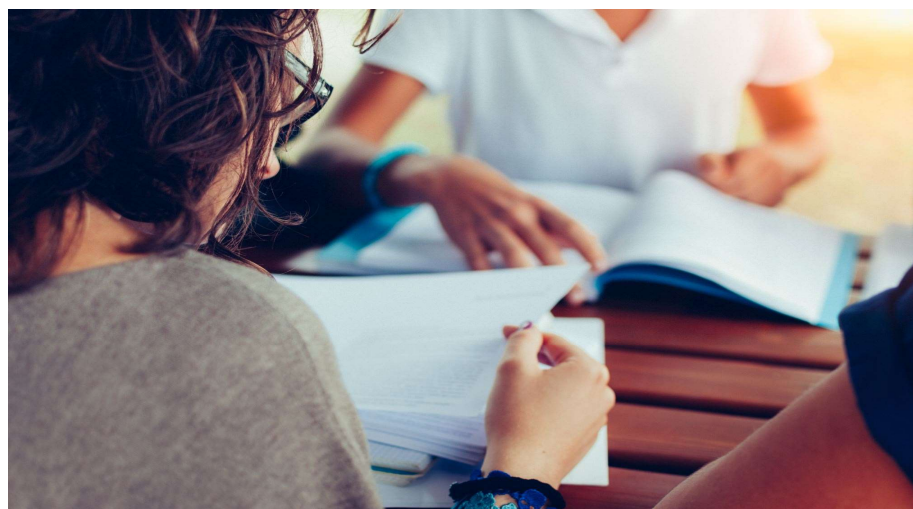
We therefore identified management override of control, in particular journals, consolidation adjustments, management estimates and transactions outside the normal course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- considered the impact of IT audit findings on the journals posted, and extended our journal testing to include journals posted by non-finance team employees;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.

Our sample testing has not identified any significant issues in respect of journals posted in year.

We include a recommendation in Appendix A relating to journal entries and follow up a prior year recommendation in Appendix B.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Presumed risk of fraud in revenue recognition ISA (UK) 240

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

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

In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council.

We have not made any changes to this assessment during the audit and based on our findings.

Risk of fraud related to expenditure recognition

Public Audit Forum- Practice Note 10

Practice Note 10 states that as most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

Having considered the expenditure streams of Herefordshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.

In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council.

We have not made any changes to this assessment during the audit and based on our findings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings and investment properties

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our work in this area is currently on-going and we will provide an update at the Audit and Governance Committee. There have been no issues noted in our work to date that we need to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

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

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

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

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

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

We have:

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

Our work in this area is on-going and we will provide a verbal update to the Audit and Governance Committee.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £334.7m	<p>Land and buildings comprises £261.5m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£73.2m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. 90% of total assets were revalued during 2020/21.</p> <p>The Council's valuer has disclosed a material uncertainty in respect of Retail and specific trading related assets / sector such as Car Parks.</p> <p>The total year end valuation of land and buildings was £ 370.4m, a net increase of £31.2m from 2019/20 (£339.2m).</p>	<p>We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included:</p> <ul style="list-style-type: none"> • an assessment of management's expert, who we found to have relevant experience and professional qualifications; • review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; • consideration of the appropriateness of any alternative site assumptions; • assessing the impact of any changes to valuation method, which we considered to be immaterial; and • an assessment of the adequacy of disclosure of estimate in the financial statements. <p>The financial statements include disclosure of material uncertainty relating to Retail and specific trading related assets / sectors such as Car Parks. We will highlight this disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification of qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>Our work in this area is currently on-going.</p>	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

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

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £282.3m - continued	<p>The Council's net pension liability at 31 March 2021 is £282.3m (PY £260m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £13m net actuarial gain during 2020/21.</p>	<table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.10%</td><td>2.10% to 2.20%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.70%</td><td>2.70%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>4.20%</td><td>2.50% to 4.20%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>24.4 / 22.7</td><td>22.5-24.7 / 20.9-23.2</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>27.1 / 25.1</td><td>25.9-27.7 / 24.0-25.8</td><td>●</td></tr> </table> <p>Our work in this area is currently on-going and we will provide a verbal update to the Audit and Governance Committee.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.10%	2.10% to 2.20%	●	Pension increase rate	2.70%	2.70%	●	Salary growth	4.20%	2.50% to 4.20%	●	Life expectancy – Males currently aged 45 / 65	24.4 / 22.7	22.5-24.7 / 20.9-23.2	●	Life expectancy – Females currently aged 45 / 65	27.1 / 25.1	25.9-27.7 / 24.0-25.8	●	Light Purple
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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation <p>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p>	<p>As part of our work we have considered:</p> <ul style="list-style-type: none"> whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income the Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the Comprehensive Income and Expenditure Statement (CIES). the adequacy of disclosure of judgements in the financial statements. 	<p>We reviewed the Council's assessment of whether it was acting as a principal or agent and concluded that its assessment and judgements were reasonable.</p>	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £9.6m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £9.6m, a net increase of £0.3m from 2019/20.</p>	<p>This area has received considerable audit focus across the sector this year. We have benchmarked the Council's current MRP, which indicates that the MRP is in line with other authorities. Our work is on-going in this area and we will provide a verbal update to the Audit Committee.</p>	Light Purple

Assessment

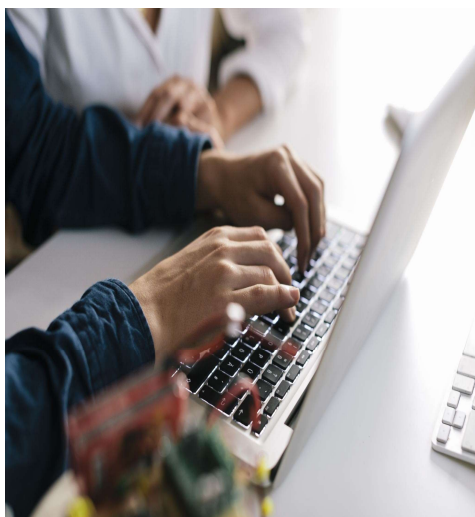
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- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

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

2. Financial Statements - other communication requirements



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

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2013 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 999 2051 1137">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1153 1973 1297" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1445" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<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 number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>We have nothing to report on these matters, although our review of the updated Annual Governance Statement is currently on-going.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. Note that work is not yet completed as we are awaiting the audit instructions from the NAO and management are yet to receive the centrally provided data collection tool. We understand that the WGA consolidation pack is not expected to be provided to audited bodies for completion prior to audit review until December 2021 at the earliest.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Herefordshire Council in the audit report, due to VFM work being ongoing and WGA consolidation procedures remaining outstanding as outlined above.</p>



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

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



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

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

Risks of significant weakness

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



Risk title: Financial Sustainability

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

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

Risk response: We will therefore:

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



Risk title: Governance

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

Risk response: We will therefore:

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



Risk title: Improving economy, efficiency and effectiveness

Risk description: there is a risk that the Council is not using its cost and performance data to improve the way that it manages and delivers its services

Risk response: We will therefore:

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

5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

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

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,500 in comparison to the total fee for the audit of £156,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	13,698	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,698 in comparison to the total fee for the audit of £156,792 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
	19,198		

Appendices

A. Action plan – Audit of Financial Statements

We have not yet identified any recommendations to date, but our audit is currently on-going. We will provide a verbal update to the Audit and Governance Committee.

Controls

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

B. Follow up of prior year recommendations

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

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

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

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

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

Misclassification and disclosure changes

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

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

C. Audit Adjustments



Impact of unadjusted misstatements

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

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

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements.

D. Fees

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

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

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

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

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

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

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

Audit fees – detailed analysis

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

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report

To follow

F. Audit letter in respect of delayed VFM work

Councillor Shaw
Herefordshire Council
Plough Lane
Hereford
HR4 0LE

Dear Councillor Shaw

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

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

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

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

Yours faithfully

Jon Roberts
Partner

