

The Audit Findings for Herefordshire Council

Year ended 31 March 2023

16 October 2023



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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 will be discussed with management and [the Audit and Governance Committee.

Name: Peter Barber
For Grant Thornton UK LLP
16 October 2023

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of 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.

We commenced our post-statements audit in July 2023 and as at 16 October 2022 our audit is substantially complete. Our findings are summarised on pages 6 to 20.

Our work to date has not identified any material errors or adjustments to the financial statements.

We have recommended a small number of audit adjustments to improve the presentation of the financial statements as detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

The draft financial statements were submitted for audit in line with the agreed national timetable and were supported by good quality working papers. We have received excellent cooperation from Finance officers at the Council and we would like to put on record our appreciation for this support throughout the audit process.

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

Subject to completing our remaining audit procedures set out on page 6, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on the 24 October 2023.

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 unmodified. Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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 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 G to this report. We expect to issue our Auditor's Annual Report by December 2023. 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. Our work on these risks is underway and an update is set out in the value for money arrangements section of this report (Section 3).

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 and Whole of Government Accounts (WGA) Procedures. Our Auditor's Annual Report will be reported in December 2023 and we are still awaiting instructions from the NAO for the WGA work.

Significant matters

We did not encounter any significant difficulties during our financial statements audit.

The Council's statements were published on 31 May 2023, in line with LG requirements. Given the Council's good track record of producing timely financial statements, we prioritised the 2022/23 financial statements audit. This resulted in Herefordshire being one of a small number of councils to commence in July 2023, tranche 1 of our regional delivery programme.

Whilst good audit progress was made we were unable to meet our original stretched target of an end of September 2023 sign off as set out in our Audit Plan. This was despite excellent cooperation from the finance team at Herefordshire and reflected resourcing challenges on our side including sickness.

The number of type of errors identified this year as a result of the audit represent a significant reduction on the size and number of errors identified in the prior year and provide the Audit & Governance Committee with assurance over the improved arrangements in place to produce complete, accurate and timely financial statements.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other council staff throughout the extended post-statements period.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

We have recently shared our Grant Thornton national report 'Lessons from recent Public Interest Reports' with the Audit & Governance Committee that sets out some of the learning from these and other Councils that have not exercised appropriate care with public money.

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

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 & Governance Committee meeting on 24 October 2023 subject to the following matters:

- completion of testing on investment property valuations and grant income;
- finalisation of our work on the expenditure and funding analysis;
- finalisation of our work on related parties;
- finalisation of our work on the MIRs;
- satisfactory completion of final quality reviews of the audit file and resolution of any resultant queries;
- receipt of management representation letter; and
- review of the final set of financial statements.

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 have been updated from those in the audit plan to reflect actual calculations based on the draft 2022/23 set of accounts.

We set out in this table our determination of materiality for Herefordshire Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	8,700,000	8,600,000	1.8% of gross revenue expenditure
Performance materiality	6,100,000	6,000,000	70% of materiality
Trivial matters	435,000	430,000	5% of total headline materiality
Materiality for Senior Officers	20,000	20,000	1.8% of senior officer remuneration. Lower level set due to the sensitive nature of the note



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	Relevant to Council and/or Group
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable risk that the risk of management override of controls is present in all entities.</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 have</p> <ul style="list-style-type: none"> • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>As part of our evaluation of design effectiveness of controls over journals we identified one deficiency:</p> <ul style="list-style-type: none"> • In the close down journals posted there is no formal approval process of individual journals <p>From our testing work performed we have not identified any instances of management override of controls. For all the journals reviewed we concluded that they were appropriate transactions.</p>	<p>Group and council</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
The revenue cycle includes fraudulent transactions (rebutted)	<p>It was reported in our audit plan that we had determined there was no significant risk of material misstatement arising from improper revenue recognition.</p> <p>We consider our rebuttal of revenue recognition to remain appropriate.</p>	Group and council
Risk of fraud related to expenditure recognition PAF Practise Note 10 (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for Herefordshire District Council because:</p> <ul style="list-style-type: none"> • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. <p>We consider our rebuttal of expenditure recognition to remain appropriate.</p>	Group and council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p>Valuation of Investment Property (Annual revaluation)</p> <p>The council revalue these assets annually to ensure that the carrying value is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. The valuation represents a significant estimate by management due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk of material misstatement</p>	<p>We have</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; 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, the Council's valuer's report and the assumptions that underpin the valuation; tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluated the assumptions made by the valuer, and management, for those assets revalued at 31 March 2023. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to the current value at the year end. <p>Our audit work in this area is still in progress.</p>	Council Only
<p>Valuation of Land and Buildings (Rolling revaluation)</p> <p>The council revalue these assets on a two-yearly rolling basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. The valuation represents a significant estimate by management due to the size of the number involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified elements of the valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>We have</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; 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, the Council's valuer's report and the assumptions that underpin the valuation; tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluated the assumptions made by the valuer, and management, for those assets revalued at 31 March 2023. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to the current value at the year end. <p>One error was identified by the council after production of the draft accounts where an asset valuation amount has been overstated in the accounts by £4.7million as further detailed in Appendix D.</p>	Council Only

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£24.1m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p> <p>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.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.</p> <p>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.</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>We have:</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 Council's pension fund valuation; assessed the accuracy and completeness of the information provided by the Council 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 performing any additional procedures suggested within the report; and obtained assurances from the auditor of the 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. <p>Our audit work has not identified any issues in respect of valuation of the pension liability.</p>	Council Only

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £387m	<p>Other land and buildings comprises £319m 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 £68m 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 and Eve to complete the valuation of properties as at 31 March 2023 on a five yearly cyclical basis. 84% of total assets were revalued during 2022/23.</p> <p>Summarise how has management have considered alternative estimates and addressed estimation uncertainty and the disclosure made in that respect.</p> <p>Management have considered the year end value of non-valued properties. Management's assessment of assets not revalued has identified no material change to the properties value. Total year end valuation of land and buildings was £387m, a net increase of £28m from 2021/22 (£359m).</p>	<p>We have carried out the following work in relation to this estimate in line with the revised ISA540 requirements:</p> <ul style="list-style-type: none"> Assessed of management's expert to ensure suitably qualified and independent; Assessed the completeness and accuracy of the underlying information used to determine the estimate; Assessed the appropriateness of any alternative site assumptions; Assessed the consistency of estimate against market data; and Assessed the adequacy of disclosure of estimate in the financial statements. 	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
Investment Property Valuation - £41.9m	<p>Investment properties are required to be measured at fair value at year end. The Council has engaged Wilks Head and Eve to complete the annual valuation of these properties as at 31 March 2023.</p> <p>The total year end valuation of investment property was £41.9m, a net increase of £1.8m from 2021/22 (£40.1m).</p>	<p>We have carried out the following work in relation to this estimate in line with the revised ISA540 requirements:</p> <ul style="list-style-type: none"> Assessed of management's expert to ensure suitably qualified and independent; Assessed the completeness and accuracy of the underlying information used to determine the estimate; Assessed the appropriateness of any alternative site assumptions; Assessed the consistency of estimate against market data; and Assessed the adequacy of disclosure of estimate in the financial statements. 	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
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2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £24.1m	<p>The Council's net pension liability at 31 March 2023 is £24.1m (PY £282.3m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £266.6m net actuarial gain during 2022/23.</p>	<p>We have carried out the following in relation to this estimate:</p> <ul style="list-style-type: none"> Assessed management's expert to ensure they are suitably qualified and independent Assessment of actuary's approach taken, detailed work undertaken to confirm reasonableness of approach Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.80%</td> <td>4.70% – 4.90%</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>3.95% – 4.20%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>23.3 / 22</td> <td>22.4 – 24.3 / 21 – 22.6</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>26.1 / 24.2</td> <td>25.3 – 26.6 / 23.5 – 24.7</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Gained assurance over the completeness and accuracy of the underlying information used to determine the estimate Assessed the impact of any changes to valuation method Assessed the reasonableness of the Council's share of LPS pension assets. Assessed the reasonableness of increase/decrease in estimate Assessed the adequacy of disclosure of estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.80%	4.70% – 4.90%	●	Pension increase rate	2.70%	2.70%	●	Salary growth	4.20%	3.95% – 4.20%	●	Life expectancy – Males currently aged 45/65	23.3 / 22	22.4 – 24.3 / 21 – 22.6	●	Life expectancy – Females currently aged 45/65	26.1 / 24.2	25.3 – 26.6 / 23.5 – 24.7	●	Light Purple
Assumption	Actuary Value	PwC range	Assessment																								
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Life expectancy – Males currently aged 45/65	23.3 / 22	22.4 – 24.3 / 21 – 22.6	●																								
Life expectancy – Females currently aged 45/65	26.1 / 24.2	25.3 – 26.6 / 23.5 – 24.7	●																								

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: key judgements and estimates









Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £12.6m	<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 £12.6m, a net increase of £1.9m from 2021/22.</p>	<p>We have reviewed the estimate by:</p> <ul style="list-style-type: none"> • assessing whether the MRP has been calculated in line with the statutory guidance; • assessing whether the Council's policy on MRP complies with statutory guidance; • reviewing the reasonableness of the increase in the MRP charge <p>Our work has not identified any issues in the calculation of the Council's MRP.</p> <p>Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.</p> <p>The Council's MRP calculation has not included any such use of capital receipts.</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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Business World	ITGC assessment (design and implementation effectiveness only)					Management override of controls, valuation of PPE and investment property assets, valuation of pension liability and employee benefit expenditure
Academy	ITGC assessment (design, implementation and operating effectiveness)					Housing benefit expenditure and council tax and business rates revenues

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

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 not been made aware of any 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 within the Audit & Governance Committee papers. This includes a disclosure in respect of equal pay given the recent publicity around the impact of equal pay on the financial health of Birmingham City Council.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority's bankers, lenders, and borrowers. 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 policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided promptly by the council and were of a high standard.

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>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>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul 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>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 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>On the basis of this work, and having regard to both the single entity and group financial statements, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul 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 have been identified. We plan to issue an unmodified opinion in this respect.</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 weaknesses. <p>Our work on VFM is still in progress, to date we have nothing to report on these matters.</p>



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
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 group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	We intend to delay the certification the closure of the 2022/23 audit of Herefordshire Council in the audit report, as detailed in Appendix G, due to our 2022/23 VFM work being incomplete.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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 G to this report. We expect to issue our Auditor's Annual Report by December 2023. 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 will consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. 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 and consider that an objective reasonable and informed third party would take the same view. 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 E.

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 [Grant Thornton International Transparency report 2023](#).

4. 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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	TBC	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p> <p>Management (as GT report to the grant paying body)</p>	<p>The expected level of this recurring fee taken on its own is not expected to be considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit 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.</p> <p>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.</p>
Certification of Teacher's Pension Claim	£7,500	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p> <p>Management (as GT report to the grant paying body)</p>	<p>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 £7,500 in comparison to the total fee for the audit 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.</p> <p>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.</p>

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Audit letter in respect of delayed VFM work
- H. Audit Opinion

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•		Significant difficulties encountered during the audit		•
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		Significant matters arising in connection with related parties		•
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	Other matters that are significant to the oversight of the financial reporting process		•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	Confirmation of independence of external experts or other auditors used as part of the audit		•
Significant matters in relation to going concern including support measures when making the going concern assessment	•	•	Valuation methods employed and impact of changes to methods		•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•	Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence	•	•	Non-compliance with laws and regulations		•
Details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit/additional services by the firm and any breach or apparent breach of that policy	•	•	Unadjusted misstatements and material disclosure omissions		•
Key audit partners involved in the audit		•	Confirm all requested explanation and documents have been provided		•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•	Distribution of tasks amongst auditors where more than one auditor has been appointed		•
Methodology used to perform the current year's audit and details of any substantial variation between system and compliance testing from the previous year		•	Identify work performed by component auditors outside of the GTIL network in relation to consolidated financial statements		•
Quantitative level of materiality determined and qualitative factors considers in its determination		•	Scope of consolidation and compliance with financial reporting framework		•
Significant findings from the audit		•	Expected modifications to the auditor's report, or emphasis of matter		•
Significant matters and issue arising during the audit and written representations that have been sought		•			
Significant deficiencies in internal control identified during the audit and whether that deficiency has been resolved by management		•			

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

Our Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings Report is issued prior to approval of the financial statements and presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	In our journals testing we identified that journals posted as part of close down after the 21 April are not subject to the same levels of review as journals posted in year. The Council satisfy themselves over these journals through their year end quality assurance checks performed, however, there is no written evidence to confirm review of the individual journals therefore creating an opportunity for management override of controls. From our testing performed we have however identified no attempts at management override of controls.	<p>We recommend that the council should ensure that all journals are authorised and that there is an audit trail to evidence this review process taking place.</p> <p>Management response</p> <p>There are robust controls in place over the processing of year end journals which provide segregation of duties and secondary review to ensure authorisation of the appropriateness and accuracy of journals. These controls will be reviewed as part of closedown activity in 2023/24 to strengthen the audit trail.</p>
Low	In our work on completeness, we noted a transaction that related to annual rental payment this cover period in both 2022/23 and 2023/24 financial year. However, the full amount has been posted by council in 2022/23. In line with the accruals basis of accounting the amount should have been split between the 2 financial years. The overall effect of this is nil as in 2021/2022 the part of the transaction that related to current period 2022-23 was posted in 2021-22. Therefore, resulting in the correct amount being recorded over the course of a year.	<p>We recommend that the council ensure that amounts are accounted for in the period in which they relate in line with the accruals basis of accounting.</p> <p>Management response</p> <p>At each year end, accruals are processed to ensure that income and expenditure is accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates may be included using judgement and reasonable expectations of value. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate accounting.</p>
Low	During our audit of the bank reconciliation, we noted that there were several outstanding cheques related to Housing Benefit that were dated between six months old and back as far as 2018.	<p>We recommend that management review the bank reconciliations and ensure that any old cheques are written off.</p> <p>Management response</p> <p>Reconciling items will be reviewed as part of monthly bank reconciliation procedures and outstanding items will be investigated to ensure timely resolution of older items.</p>
Low	There are a number of fully depreciated assets still in use by the council. This therefore creates at risk that the annual depreciation charge is overstated if an appropriate useful lives is not being used.	<p>We recommend that management ensure that useful lives are regularly reviewed to ensure they are being appropriately applied.</p> <p>Management response</p> <p>The useful lives of the council's assets will continue to be reviewed at each year end to ensure that the cost is spread over an appropriate period.</p>

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Herefordshire Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed and are reported in Appendix B.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>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. As per this review process, the finance team receive an automatic notification from Business World at the end of each month showing all journals above £250k (£2m for journals posted after year end). The notification also detail whether or not a document has been attached to support the journal within Business World. This notification is then reviewed by the finance team to identify if any journals are unsupported.</p> <p>During our review of journals, we identified instances where not documents were attached to Business World and also cases where the review work paper was not accurately maintained. Moreover, we were also informed that this review procedure is not carried out for journals posted after period 12. We recommend the council to ensure stricter controls around high value journals and maintain a proper audit trail to evidence such review.</p>	<p>Management comment</p> <p>The authorisation and review of high level journals including those posted after period 12 will be reviewed as part of closedown procedures in 2023/24.</p>
✓	<p>The council has investment properties which it leases to tenant during our review we noted that there were several lease arrangements have ended but the lease has been continued with the Council receiving monthly income with no contract to support the arrangement. In addition to this, we found three instances (in our sample of five leases) whereby the Council have charged the wrong amount.</p>	<p>Management comment</p> <p>This action has now been completed.</p>
X	<p>During our audit of the bank reconciliation, we noted that there were several outstanding cheques related to Housing Benefit that were dated between six months old and back as far as 2018.</p>	<p>Management comment</p> <p>As per page 29: Reconciling items will be reviewed as part of monthly bank reconciliation procedures and outstanding items will be investigated to ensure timely resolution of older items.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
PPE – overstatement of PPE asset valuation. Identified by the council after production of the draft accounts.	N/A	Dr Revaluation Reserve 4,739 Cr Land and Buildings 4.739	Cr Surplus or deficit on revaluation of non-current assets 4,739	N/A

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/issue/Omission	Auditor recommendations	Adjusted?
The accounts did not detail the useful expected life (UEL) of land and buildings assets. The life should be detailed as 24- 56 years.	We therefore recommend that management update the PPE note to include the UEL of land and building assets Management response Agreed - disclosure in the accounts have been updated as recommended	✓
In the senior employee's remuneration note the salary and allowances and pension contributions amount for the corporate director has been incorrectly entered this should be disclosed as Salary and allowance £31k and pension contributions £5k.	We therefore recommend that management update the Senior Employees Remuneration note to include the correct amounts Management response Agreed - disclosure in the accounts have been updated as recommended	✓
A number of presentation and typographical changes were identified within the draft financial statements which have been corrected by management in order to aid transparency.	We therefore recommend that management update the accounts for the relevant matters raised Management response Agreed - disclosure in the accounts have been updated as recommended	✓

D. Audit Adjustments

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>The annual leave accrual is incorrectly included in the financial instruments note as a financial liability, under IAS 32 this is not a financial instrument, this results in a decrease in financial liabilities disclosure of £3,200k.</p>	<p>We recommended that management amend the disclosure to appropriately exclude the annual leave accrual in the financial instrument's disclosure.</p> <p>Management response Agreed - disclosure in the accounts have been updated as recommended</p>	✓

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

No adjustment misstatement identified from our work performed .

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Impact on general fund	Reason for not adjusting
PPE revaluation – during the audit we noted that the 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	-	0.096m	-	-	

E. Fees

We confirm below our final fees charged for the audit.

Audit fees	2021/22 Actual Fee £	2022/23 Indicative fee at planning £ *	2022/23 Anticipated final fee £ **
Scale fee	101,792	106,417	106,417
Additional proposed fee	88,375	57,885	52,625
Total audit fees (excluding VAT)*	190,167	164,302	159,042

*Indicative 2022/23 fee breakdown at planning provided in 2022/23 Audit Plan dated 12 June 2023.

** Anticipated final 2022/23 fee has been reduced to reflect the removal of costs associated with the use of our auditors' expert in respect of land and building and investment properties. Final fee subject to completion of VFM work that is currently ongoing. All additional fees are subject to approval by PSAA.

E. Fees and non-audit services

Non-audit fees for other services	Fee
Audit Related Services	0
Certification of Housing Benefit	TBC
Certification of Teachers' Pensions Claim	£7,500
Total non-audit fees (excluding VAT)	TBC

Audit Fees reconciliation:

	Fee £'000
Fees for 2022/23 per financial statements	240
Less anticipated additional fees for current year	(119)
Plus actual additional fees for current year	52
Plus change in scale fee between years	5
Less certification work	(19)
Final anticipated fees for 2022/23	159*

* See 2022/23 final anticipated fee on page 34

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit letter in respect of delayed VFM work

David Hitchiner
Chair of Audit and Governance Committee
Herefordshire Council
Plough Lane
Hereford
HR4 0LE

Dear David,

2022/23 VFM Arrangements

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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 can 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 December 2023.

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

Yours faithfully
Peter Barber
Director

H. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Herefordshire Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the, the Cash Flow Statement, the notes to the financial statements, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement, the Group Cash Flow Statement and notes to the group financial statements and the Collection Fund Statement, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

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

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

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Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012, and the Local Government Act 2003).

We enquired of management and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, and of fraudulent recognition of revenue and expenditure. We determined that the principal risks were in relation to journal entries outside of the normal course of business and significant management estimates, in particular those relating to land and buildings valuations (including valuations of investment property) and the valuation of the net pension fund liability. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on unusual and high-risk journals made at the year-end accounts production stage;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties, and defined benefit pensions liability valuations; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

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

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's [and component auditor's].

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates

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- understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

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

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

