

# Audit Findings (ISA 260) Report for Herefordshire Council

Year ended 31 March 2025

29 September 2025



## Herefordshire Council

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29 September 2025

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Dear Members of the Audit and Governance Committee

### Audit Findings for Herefordshire Council for the year ended 31 March 2025

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 and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

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

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We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2024-.pdf \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2024-).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grace Hawkins

Director  
For Grant Thornton UK LLP

**Chartered Accountants**

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# Contents

| Section  | Page |
|--|------|
| 01 Headlines and status of the audit                     | 5    |
| 02 Group audit   | 12   |
| 03 Materiality   | 14   |
| 04 Overview of significant risks identified              | 17   |
| 05 Other findings  | 25   |
| 06 Communication requirements and other responsibilities | 33   |
| 07 Audit adjustments                                     | 38   |
| 08 Value for money                                       | 55   |
| 09 Independence considerations                           | 57   |
| Appendices   | 64   |

# **01 Headlines and status of the audit**

# Headlines (1)

This page, and the following pages, summarise the key findings and other matters arising from the statutory audit of Herefordshire Council (the 'Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2025 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 Authority's financial statements give a true and fair view of the financial position of the group and Authority and the group and Authority'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 consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work is being completed during June-September, as planned. Our findings are summarised on pages 17 to 32. We have identified adjustments to the financial statements that are detailed at pages 38 to 48.

We have also raised recommendations for management as a result of our audit work. These are set out at page 49. Our follow up of recommendations from the prior year's audit are detailed at page 50.

The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of one capital programme (please see page 20). No further areas of concern were identified as a result of this work.

Our work is complete, and an unqualified opinion was issued to the Council on 29 September 2025.

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the financial statements we have audited.

# Headlines (2)

## Value for money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to consider whether the Authority 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 Authority'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 Authority's arrangements under the following specified criteria:

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

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this. We identified significant weaknesses in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Headlines (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.

## Significant matters

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

# Headlines (4)

## National context – audit backlog

### Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Herefordshire Council have not been subject to any disclaimer of opinion because of the backstop as all audits have been completed within the deadlines over previous years, and there is no expectation that the financial statements will not be published by the backstop dates going forward.

# Headlines (5)

## Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local authority practitioners to support the transition and implementation on IFRS 16.

### Introduction

IFRS 16 updates the definition of a lease to:

- “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

- leases of low value assets
- short-term leases (less than 12 months).

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an authority is an intermediate lessor, or where assets are leased out for little or no consideration.

### Impact on the Authority

The Council have applied the requirements of IFRS 16 in the 2024/25 accounts. This has resulted in a £13.4 million increase to the opening balance of PPE. The majority of the adjustment relates to the remeasurement of the Council's PFI asset. The Council had a relatively small number of peppercorn leases. The Council have updated their accounting policies and disclosures accordingly.

# Overview and status of the audit

## Recap of our audit approach

Materiality has been set at 2% of the gross cost of services expenditure as per the draft financial statements (2023/24: 1.5%), resulting in a materiality of £10.500 million for the Council (2023/24: £7.600 million), and £10.600 million for the Group (2023/24: £7.700 million). This has been increased from the materiality communicated in our Audit Plan which was based on the net cost of services as per the prior year signed accounts, therefore the increase is in line with the increase in costs from 2023/24 to 2024/25.

Herefordshire Council has only one entity which is consolidated into the Group financial statements; Hoople Limited. The only balance in the accounts of Hoople Limited which is material to the Group financial statements is the employee expenses, therefore this has been tested by Grant Thornton directly to provide sufficient audit assurance. This is consistent with the approach communicated in our Audit Plan.

There have been no significant changes to our risk assessment communicated in our Audit Plan.

## Status of the audit

Our work is complete, and an unqualified opinion was issued to the Council on 29 September 2025.

# 02 Group audit

# Group audit

In accordance with ISA (UK) 600 Revised, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component.

| Component             | Risk of material misstatement to the group? | Scope – planning | Scope – final | Auditor           | Key Audit Partner / Responsible Individual | Status | Comments  |
|-----------------------|---|------------------|---------------|-------------------|--|--------|---|
| Herefordshire Council | Yes   | Scope 1          | Scope 1       | Grant Thornton UK | Grace Hawkins                              | ●      | Our work is largely complete, however a handful of areas of audit work are scheduled to be finalised in September. For more details please refer to the ‘Status of audit’ on page 12.   |
| Hoople Ltd            | Yes   | Scope 2          | Scope 2       | Not applicable    |  | ●      | The only balance held in Hoople Ltd’s accounts which is material to the group financial statements is their employee benefits expenditure. This balance alone has been tested in full by the group audit team to ensure sufficient appropriate audit evidence over the group balances. No reliance has been placed on the component auditor.<br><br>No issues have been identified from our work performed. |

- [Scope 1] Audit of entire financial information of the component, either by the group audit team or by component auditors (full-scope)
- [Scope 2] Specific audit procedures designed by the group auditor (specific scope)
- [Scope 3] Specific audit procedures designed by a component auditor (specific scope)
- Out of scope Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.
- Planned procedures are substantially complete with no significant issues outstanding.
- Planned procedures are ongoing/subject to review with no known significant issues.
- Planned procedures are incomplete and/or significant issues have been identified that require resolution.

# 03 Materiality

# Our approach to materiality (1)

As communicated in our Audit Plan dated 14 March 2025, we determined Group materiality at the planning stage as £10.3 million based on 2% of prior year net cost of services. At year-end, we have reconsidered planning materiality based on the draft consolidated financial statements, this has led to an increase of group materiality to £10.6 million. A recap of our approach to determining materiality is set out below.

## Basis for our determination of materiality

- We have determined Group materiality at £10.6million based on professional judgement in the context of our knowledge of the Authority, including consideration of factors such as debt arrangements, the business environment in which the Council operates and the control environment.
- We have used 2% of gross cost of services expenditure as the basis for determining materiality.
- The benchmark and percentage applied in determining materiality reflects the nature of the Council's primary objectives and has been considered appropriate.
- The percentage applied has been increased from 1.5% applied in the prior year, following an update to Grant Thornton internal guidance and a reassessment of risk.
- The materiality communicated in our Audit Plan was based on the cost of services reported in the 2023/24 financial statements. This has been updated upon receipt of the draft 2024/25 financial statements, which has resulted in an increase in the overall materiality.

## Performance materiality

- Where audit work on components is being performed using component performance materiality, this has been set at between £4.372 million (for Hoople Ltd) and £7.553 million (for the Council), with the component performance materiality used reflecting the relative risk and size of that component to the group.

## Specific materiality

- A lower materiality has been determined for the senior officers' remuneration disclosure. This has been set at £10,000 per individual officer, which covers 2 bandings in the disclosure.

## Reporting threshold

- We will report to you all misstatements identified in excess of £0.525 million, in addition to any matters considered to be qualitatively material.

# Our approach to materiality (2)

A summary of our approach to determining materiality is set out below.

|  | <b>Group (£)</b> | <b>Authority (£)</b> | <b>Qualitative factors considered</b>  |
|--|------------------|----------------------|--|
| Materiality for the financial statements                                     | 10,600,000       | 10,500,000           | Financial statement materiality is based on 2.0% of 2024/25 draft gross cost of services expenditure.                                    |
| Performance materiality  | 7,950,000        | 7,875,000            | Performance materiality is based on 75% of financial statement materiality.  |
| Reporting threshold  | 530,000          | 525,000              | Triviality is set at 5% of financial statement materiality.  |
| Specific materiality for individual senior officers' remuneration disclosure | 10,000           | 10,000               | We consider the disclosure of senior officers' remuneration to be a sensitive disclosure and therefore have applied a lower materiality. |

# **04 Overview of significant risks identified**

# Overview of audit risks

The below table summarises the significant risks discussed in more detail on the subsequent pages. Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

| Risk title  | Risk level  | Change in risk since Audit Plan | Fraud risk | Level of judgement or estimation uncertainty | Status of work |
|---|-------------|---------------------------------|------------|--|----------------|
| Management override of controls                       | Significant | ↔                               | ✓          | Medium                                       | ●              |
| Valuation of land and buildings                       | Significant | ↔                               | ✗          | High   | ●              |
| Valuation of investment properties                    | Significant | ↔                               | ✗          | High   | ●              |
| Valuation of the pension fund net asset/liability     | Significant | ↔                               | ✗          | High   | ●              |
| The revenue cycle includes fraudulent transactions    | Rebutted    | ↔                               | ✓          | low  | ●              |
| The expenditure cycle include fraudulent transactions | Rebutted    | ↔                               | ✓          | low  | ●              |

- ↑ Assessed risk increase since Audit Plan
- ↔ Assessed risk consistent with Audit Plan
- ↓ Assessed risk decrease since Audit Plan

- Not likely to result in material adjustment or change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Likely to result in material adjustment or significant change to disclosures within the financial statements

# Significant risks (1)

| Risk identified   | Audit procedures performed   | Key observations   |
|---|--|--|
| <p><b>Management override of controls</b></p> <p>Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design and implementation of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness;</li> </ul> | <p><b><u>Journals</u></b></p> <p>As in the prior year, we have noted that the Authority's ledger system does not allow for the digital approval of journals before they can be posted. Instead, management maintains a spreadsheet record of the journals and also manually tracks the approvals. We have also noted that there is no formal review process for journals which fall below £2 million total value, or £250,000 for an individual journal line. The use of a spreadsheet to record the approval of journals presents a risk that this record could be manipulated and the controls could be circumvented. The lack of a digital record of approvals in the ledger has also limited our ability to perform our data analytics routines in the identification of risky journals. We appreciate that this is a limitation of the ledger system and therefore not easily in the control of management, and also note that they have taken some steps to address our prior year recommendations by improving the data recorded on the spreadsheet they use. As we consider that elements of the risks identified previously still remain, we have kept open our prior year recommendations in respect of this matter. An update from management can be found on page 52.</p> <p>No issues were identified from our testing of journal entries.</p> <p><b><u>Estimates and Judgements</u></b></p> <p>We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology.</p> <p>Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements.</p> |

# Significant risks (2)

| Risk identified   | Audit procedures performed   | Key observations   |
|---|--|--|
| <p><b>Management override of controls (continued)</b></p> <p>Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design and implementation of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness;</li> </ul> | <p><b><u>Management Override Issue &amp; Investigation</u></b></p> <p>The Council's Capital Strategy and Capital Programme, supported by Cabinet approval processes and Programme Management Office oversight, set out a governance framework intended to provide assurance over cost control, delivery monitoring, and escalation for major capital projects. However, these arrangements are not consistently applied. Review of the Student Accommodation project identified management override of expected controls, with approval decisions made using outdated viability assessments, insufficient segregation of duties, procurement lacking a documented rationale, legal advice not escalated appropriately, and documentation and audit trails for key decisions were incomplete. Extensive further investigation work was completed by the Council and the audit team to establish whether this was an isolated issue, including the involvement of forensics specialists where necessary. No further areas of concern were identified as a result of this work.</p> |

# Significant risks (3)

| Risk identified  | Audit procedures performed                               | Key observations   |
|--|--|--|
| <p data-bbox="109 421 843 456"><b>The revenue cycle includes fraudulent transactions</b></p> <p data-bbox="109 478 1340 621">Under ISA (UK) 240, there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud related to revenue recognition.</p> <p data-bbox="109 642 1274 678">This risk was rebutted in our audit plan, and that assessment remains appropriate.</p>   | <p data-bbox="1439 421 1696 456">n/a - risk rebutted</p> | <p data-bbox="1941 421 2198 456">n/a - risk rebutted</p> |
| <p data-bbox="109 692 820 728"><b>Presumed risk of fraud in expenditure recognition</b></p> <p data-bbox="109 749 1340 978">Practice note 10: Audit of financial statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition for public sector bodies. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.</p> <p data-bbox="109 999 1274 1035">This risk was rebutted in our audit plan, and that assessment remains appropriate.</p> | <p data-bbox="1439 692 1696 728">n/a - risk rebutted</p> | <p data-bbox="1941 692 2198 728">n/a - risk rebutted</p> |

# Significant risks (4)

| Risk identified   | Audit procedures performed  | Key observations   |
|---|---|--|
| <p><b>Valuation of land and buildings</b></p> <p>The significant value of land and buildings and the sensitivity to changes in assumptions.</p>       | <p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to management’s valuation experts and the scope of their work.</li> <li>• Evaluated the competence, capabilities and objectivity of the valuation expert.</li> <li>• Evaluated the valuer’s report to identify assets that have large and/or unusual changes in value and/or approach to the valuation and subject those assets to testing.</li> <li>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.</li> <li>• Tested a sample of asset valuations to ensure that the correct accounting treatment has been applied and correctly reflected in the financial statements.</li> <li>• Engaged a valuation expert to review the valuation instructions sent to the Council’s valuer and the valuation report received.</li> <li>• For land and buildings valuations; Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to their carrying value at the year end.</li> </ul> | <p>As in the prior year we have identified errors as a result of incorrect areas being used to form the valuations of both land and building asses and investment properties. These errors have resulted in adjustments to the financial statement and are reported on pages 39 and 40. In the prior year we raised a recommendation in respect of this matter and that recommendation remains open; an update from management can be found on page 54.</p> <p>We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology.</p> <p>Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements.</p> |
| <p><b>Valuation of investment properties</b></p> <p>The significant value of investment properties and the sensitivity to changes in assumptions.</p> |   |  |

# Significant risks (5)

## Risk identified

### Valuation of net pension asset

The Authority's share of the pension fund net asset represents a significant estimate in the financial statements. The pension fund net asset is considered a significant estimate due to the size of the numbers involved (£94.9m in the Authority's Balance Sheet at 31 March 2025, before the application of the asset ceiling) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code. 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. However, the Authority has had to consider the potential impact of 'IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset'. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. *(continued overleaf)*

## Audit procedures performed

We have:

- Evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work;
- Evaluated the assumptions made by the actuary in the calculation of the estimate, using work performed by an auditor's expert and additional follow up procedures, where required;
- Evaluated the data used by management's experts in the calculation of the estimates;
- Considered the impact of IFRIC 14 and evaluated its application;
- Performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations; and
- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

## Key observations

The Authority had considered the potential impact of IFRIC 14 before the commencement of the audit and had engaged their actuary to prepare an assessment as part of the IAS 19 report. As a result, the Authority have recognised a credit to the balance sheet of £102.0 million in respect of an asset ceiling, which has reduced the £94.9 million net asset to a £7.1 million liability.

# Significant risks (6)

## Risk identified

## Audit procedures performed

## Key observations

### Valuation of net pension asset (continued)

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have an approximately 1.5% effect on the liability/asset. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculation. With regard to these assumptions, we have therefore identified valuation of the Authority's net pension liability as a significant risk.

# 05 Other findings

# Other areas impacting the audit

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

| Issue  | Commentary  | Auditor view  |
|--|---|---|
| <p><b>IFRS 16 implementation</b></p> <p>The adoption of IFRS 16 is required for local government authorities at 1 April 2024. The Authority have disclosed the implementation of the new accounting standard, the nature of the changes in the accounting policy for leases, along with the impact of IFRS 16 on transition.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>- Reviewed the accounting policies and disclosures in relation to the adoption of IFRS 16;</li> <li>- Tested the calculation of the lease liabilities;</li> <li>- Tested the valuation of right of use assets;</li> <li>- Assessed the completeness of the assets and liabilities, and management's procedures and controls for identifying leases falling under IFRS 16.</li> </ul> | <p>Our work has not identified any issues in regard to the completeness of leases or application of the new IFRS16 accounting standard.</p> |

# Other findings – significant matters

| Issue                    | Commentary   | Auditor view  |
|--------------------------|--|---|
| Prior period adjustments | <p>The Authority has received £22.9million of grants from the Department for Communities and Local Government (DCLG) which was incorrectly classified as a non-ring-fenced grant despite there being conditions attached to the grant. As a result, the grant income has been charged through the tax and non-specific grant income line in the CIES, when it should have been charged through the costs of services. This issue was present in the prior year, and therefore, as the amount is material, the Council will prepare a prior period adjustment, to correct the prior year balances (£16.5million).</p> | <p>The Authority have appropriately corrected for the issue identified and made the necessary disclosures.</p> <p><b>Management response</b></p> <p>These grants are part of the Settlement Funding Assessment for budget setting and have historically been treated as grants within Taxation and non-specific grant income. Management have agreed to amend the grant income to be included within appropriate directorate lines within Net cost of services.</p> |

# Other findings – key judgements and estimates (1)

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

| Key judgement or estimate   | Summary of management's approach  | Auditor commentary  | Assessment   |
|---|---|---|--|
| <p><b>Valuation of land and buildings</b></p> <p>£385.7m at 31 March 2025</p> | <p>Other land and buildings comprises £297.7m 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 (£89.0m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Authority has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2025 on a five yearly cyclical basis. 54% of total assets were revalued during 2024/25 (2023/24: 80%).</p> <p>Management have considered the year end value of non-valued properties. Management have applied indices to determine whether there as been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>The total year end valuation of land and buildings was £385.7m, a net decrease of £8.8m from 2023/24 (£394.5m).</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"> <li>- Assessed management's expert to ensure suitably qualified and independent;</li> <li>- Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>- Assessed the appropriateness of any alternative site assumptions;</li> <li>- Assessed the impact of any changes to valuation method; and</li> <li>- Assessed adequacy of disclosures of estimate in the financial statements.</li> </ul> | <p style="text-align: right;"><span style="color: orange;">●</span> <b>Amber</b></p> <p>We have applied our own indices to determine the potential change in value of assets not revalued at 31 March 2025, and identified a potential non material understatement</p> |

## Assessment:

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Other findings – key judgements and estimates (2)

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

| Key judgement or estimate  | Summary of management's approach  | Auditor commentary  | Assessment   |
|--|---|---|--|
| <p><b>Valuation of investment property</b><br/>£53.5m at 31 March 2025</p> | <p>The Authority has engaged Wilks, Head and Eve to complete the annual valuation of investment properties held at fair value as at 31 March 2025. 100% of total assets were revalued during 2024/25.</p> <p>The total year end valuation of investment property was £53.5m, a net increase of £0.9m from 2023/24 (£52.6m).</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"> <li>- Assessed management's expert to ensure suitably qualified and independent;</li> <li>- Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>- Assessed the appropriateness of any alternative site assumptions;</li> <li>- Assessed the impact of any changes to valuation method; and</li> <li>- Assessed adequacy of disclosures of estimate in the financial statements.</li> </ul> | <p><b>● Green</b></p> <p>No issues were identified in relation to the assumptions used. There were differences noted in a number of the floor plans used as part of the source data review. This has been outlined on page 54.</p> |

# Other findings – key judgements and estimates (3)

| Key judgement or estimate   | Summary of management’s approach  | Auditor commentary  | Assessment   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
|---|---|---|--|---------------|-----------|------------|---------------|------|-------------|------------|-----------------------|------|-------------|------------|---------------|------|-------------|------------|--|---------------|---------------------------------------|------------|--|---------------|---------------------------------------|------------|--|
| <p><b>Valuation of net pension liability</b><br/>£7.5m at 31 March 2025</p> <p>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the Balance Sheet as an asset and whether any additional liabilities are required in respect of onerous funding commitments.</p> <p><i>(continued)</i></p> | <p>The Authority’s net pension liability at 31 March 2025 is £7.5m (PY £8.7m) [comprising the Worcestershire County Council Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. The Authority uses Hyman Robertson to provide actuarial valuations of the Authority’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 gross pension fund assets and liabilities, small changes in assumptions can result in significant valuation movements. There has been a £1.1m net actuarial gain during 2024/25.</p> | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>- Assessed management’s expert to ensure they are suitably qualified and independent;</li> <li>- Assessed the actuary’s approach taken, and performed detailed work to confirm reasonableness of approach;</li> <li>- Made use of PwC as auditors’ expert to assess actuary and assumptions made by actuary – please see below:</li> </ul>   | <p><span style="color: green;">●</span> <b>Green</b></p> <p>No issues were identified in relation to the assumptions used.</p> |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
|   |   | <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>5.8%</td> <td>5.80%-5.85%</td> <td>Reasonable</td> </tr> <tr> <td>Pension increase rate</td> <td>2.80</td> <td>2.70%-2.80%</td> <td>Reasonable</td> </tr> <tr> <td>Salary growth</td> <td>4.3%</td> <td>2.70%-3.80%</td> <td>Optimistic</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21.2/<br/>22.5</td> <td>23.7 ±8-10 years/<br/>22.1 ±8-10 years</td> <td>Reasonable</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>23.6/<br/>25.4</td> <td>26.4 ±8-10 years/<br/>24.3 ±8-10 years</td> <td>Reasonable</td> </tr> </tbody> </table> | Assumption   | Actuary value | PwC range | Assessment | Discount rate | 5.8% | 5.80%-5.85% | Reasonable | Pension increase rate | 2.80 | 2.70%-2.80% | Reasonable | Salary growth | 4.3% | 2.70%-3.80% | Optimistic | Life expectancy – Males currently aged 45/65 | 21.2/<br>22.5 | 23.7 ±8-10 years/<br>22.1 ±8-10 years | Reasonable | Life expectancy – Females currently aged 45/65 | 23.6/<br>25.4 | 26.4 ±8-10 years/<br>24.3 ±8-10 years | Reasonable |  |
| Assumption  | Actuary value   | PwC range   | Assessment   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
| Discount rate   | 5.8%  | 5.80%-5.85%   | Reasonable   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
| Pension increase rate   | 2.80  | 2.70%-2.80%   | Reasonable   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
| Salary growth   | 4.3%  | 2.70%-3.80%   | Optimistic   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
| Life expectancy – Males currently aged 45/65  | 21.2/<br>22.5   | 23.7 ±8-10 years/<br>22.1 ±8-10 years   | Reasonable   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
| Life expectancy – Females currently aged 45/65  | 23.6/<br>25.4   | 26.4 ±8-10 years/<br>24.3 ±8-10 years   | Reasonable   |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |
|   |   | <p><i>(continued)</i></p>   |  |               |           |            |               |      |             |            |                       |      |             |            |               |      |             |            |  |               |                                       |            |  |               |                                       |            |  |

# Other findings – key judgements and estimates (4)

| Key judgement or estimate   | Summary of management's approach | Auditor commentary   | Assessment |
|---|----------------------------------|--|------------|
| <p>Valuation of net pension liability</p> <p>£7.5m at 31 March 2025</p> <p>IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits' available in the form of refunds from the plan or reductions in future contributions to the plan.</p> |                                  | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>- Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>- Assessed the impact of any changes to valuation method;</li> <li>- Assessed the reasonableness of the Authority's share of the LGPS pension assets and any asset ceiling consideration under IFRIC 14;</li> <li>- Assessed the reasonableness of any changes in estimates;</li> <li>- Assessed the adequacy of disclosures of estimates in the financial statements; and</li> <li>- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Authority's financial statements.</li> </ul> |            |

# Other findings – Information Technology

This section provides an overview of results from our assessment of the Information Technology (IT) environment and controls therein which included identifying risks from IT related business process controls relevant to the financial audit. This table below includes an overall IT General Control (ITGC) rating per IT application 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 |  |
| Unit 4 (Business World) | ITGC assessment (design and implementation effectiveness only) | ●<br>Green          | ●<br>Green               | ●<br>Green  | ●<br>Green                | Management override of controls; valuation of PPE and IP; valuation of pension liability |

**Assessment:**

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

# **06 Communication requirements and other responsibilities**

# Other communication requirements

| Issue                                       | Commentary  |
|---|---|
| Matters in relation to fraud                | The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of a capital programme (please see page 20). This work did not identify any instances of fraud.                            |
| 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 | The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of a capital programme (please see page 20). This work did not identify any instances of breaches in laws and regulations. |
| Written representations                     | Representations were provided by management after approval at the Audit and Governance Committee, these include specific representation in respect of the prior period adjustment that has been identified.   |
| Confirmation requests from third parties    | We requested from management permission to send confirmation requests to the Authority's banking, lending and investment partners. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmations.  |
| Disclosures                                 | Our review found no material omissions in the financial statements.   |
| Audit evidence and explanations             | All information and explanations requested from management was provided.  |

# Other responsibilities (1)

| 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 2024). 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"> <li>• 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</li> <li>• 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 Authority’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p><i>(continued)</i></p> |

# Other responsibilities (2)

| Issue         | Commentary  |
|---------------|---|
| Going concern | <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 Authority 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"> <li>• the nature of the Authority and the environment in which it operates</li> <li>• the Authority's financial reporting framework</li> <li>• the Authority's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>– a material uncertainty related to going concern has not been identified; and</li> <li>– management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul> |

# Other responsibilities (3)

| Issue   | Commentary   |
|---|--|
| Other information                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We expect 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"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses.</li> </ul> <p>We have nothing to report on these matters except we have reported two significant weaknesses in our Auditor's Annual Report which accompanies this report.</p> |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Authority does not exceed the threshold.</p>   |
| Certification of the closure of the audit             | <p>We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2025 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received confirmation from the National Audit Office the audit of the Whole of Government Accounts is complete for the year ended 31 March 2025. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.</p>  |

# 07 Audit adjustments

# Audit adjustments (1)

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.

| Detail  | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000  | Balance Sheet<br>£'000                               | Impact on total net<br>comprehensive<br>expenditure<br>£'000      | Impact on general<br>fund<br>£'000 |
|---|---|--|---|------------------------------------|
| <p><b>1. Investment property areas</b></p> <p>During the year, a part of one of the Council's investment properties was sold, however the disposed portion of the property remained included in the area that was valued by the Council's valuer at 31 March 2025, resulting in an overstatement of the valuation. The overstatement amounted to £4.997 million. We have been able to isolate this error to the asset in which it was found.</p> <p>There is no impact on the general fund as revaluation gains/losses are charged to the revaluation reserve in unusable reserves.</p> | <p>Surplus on revaluation of non-current assets, through other comprehensive income overstated:</p> <p>£4,997</p> | <p>Investment property overstated:</p> <p>£4,997</p> | <p>Total comprehensive expenditure understated:</p> <p>£4,997</p> | <p>£nil</p>                        |

# Audit adjustments (2)

## Impact of adjusted misstatements

| Detail  | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000  | Balance Sheet<br>£'000 | Impact on total net<br>comprehensive<br>expenditure<br>£'000 | Impact on general<br>fund<br>£'000 |
|---|---|------------------------|--|------------------------------------|
| <p><b>2. Classification of ring-fenced grants</b></p> <p>The Authority has received £22.9 million of grants from the Department for Communities and Local Government (DCLG) which was incorrectly classified as a non-ring-fenced grant despite there being conditions attached to the grant. As a result, the grant income has been charged through the tax and non-specific grant income line in the CIES, when it should have been charged through the costs of services. This issue was present in the prior year, and therefore, as the amount is material, the Council will also prepare a prior period adjustment, to correct the prior year balances.</p> | <p>There is no net impact on the CIES, however individual balances are affected.</p> <p>Cost of services income understated:<br/>£22,900</p> <p>Tax and non-specific grant income overstated:<br/>£22,900</p> | £nil                   | £nil   | £nil                               |
| <b>Overall impact</b>   | <b>£4,997</b>   | <b>£4,997</b>          | <b>£4,997</b>  | <b>Nil</b>                         |

# Audit adjustments (3)

## 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   | Misclassification or change identified  | Adjusted? |
|--|---|-----------|
| 1. Note 19 Property, plant and equipment movements | The disclosure of the adjustment to the opening balance of PPE, due to the initial application of IFRS 16, omitted the PFI assets and therefore the disclosure does not cast. This does not affect the balance sheet balance as the closing balance disclosed is correct.   | Yes       |
| 2. Note 19 Property, plant and equipment movements | The Council have disclosed the value of assets revalued at 31 March 2025 as £299.6 million. This figure is overstated by £2.8 million, due to the inclusion of the adjustment due to the initial application of IFRS 16 on several right of use assets.   | No        |
| 3. Cash Flow Statement                             | In our Council cash flow testing, we identified a balancing figure variance of £1.8 million in Investing Activities, which the council was unable to explain. This variance is also reflected in the consolidated group cash flow.  | No        |
| 4. Note 26 Private finance initiatives (PFI)       | The Council has shown £10.3 million relating to the remeasurement of the opening balance of PFI liabilities under IFRS 16. The Grant Thornton PFI team have calculated that £824,000 of this actually relates to in-year measurements which we would expect to be separately identified. There is no impact on the total liability recorded in the financial statements. This guidance was released in June after the publication of the draft financial statements.  | No        |
| 5. Note 21 Capital Financing Requirement (CFR)     | In 2014/15, £20 million of spend on road investments was financed by prudential borrowing. It was agreed that the service would repay that borrowing principal through the allocation of Local Transport Plan capital grant each year. This repayment has been added to the CFR balance each year within the note when no new asset has been created, resulting in a cumulative overstatement of the CFR balance of £5.4 million. There is no adjustment to the ledger or the main statements. As this amount is immaterial no Prior Period Adjustments disclosures are required. | Yes       |

# Audit adjustments (4)

## Impact of unadjusted misstatements

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

| Detail  | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000 | Balance Sheet<br>£'000                  | Impact on total<br>net<br>comprehensive<br>expenditure<br>£'000 | Impact on<br>general fund<br>£'000 | Reason for not<br>adjusting                           |
|---|--|---|---|------------------------------------|---|
| <p><b>1. Invoices received testing</b></p> <p>We identified misstatements from our testing of invoices received around the year end date. The first relates to an invoice for services received across the 23/24 and 24/25 years. The invoice was received late, and no accrual was posted in 23/24, resulting in a £33,147 overstatement in the 24/25 expenditure. The second is a similar situation, where an invoice relating to services received in 24/25 was received late, however in this case an accrual was posted into the 24/25 year, but the accrual was overestimated by £57,217 such that the 24/25 expenditure is overstated.</p> <p>We have estimated that the potential impact of these errors, if seen across the portion of the invoices that we haven't tested, could be around £721k.</p> | <p>Cost of services expenditure overstated:</p> <p>£721</p>      | <p>Creditors Overstated</p> <p>£721</p> | <p>Total comprehensive expenditure overstated:</p> <p>£721</p>  | <p>Nil</p>                         | <p>Not material and an estimated potential error.</p> |

# Audit adjustments (5)

## Impact of unadjusted misstatements

| Detail  | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000 | Balance Sheet<br>£'000   | Impact on total<br>net<br>comprehensive<br>expenditure<br>£'000 | Impact on<br>general fund<br>£'000 | Reason for not<br>adjusting                    |
|---|--|--|---|------------------------------------|--|
| <p><b>2. Capital Financing Requirement (Note 21)</b></p> <p>During 2024/25, the financing of £5.2m historic broadband spend was amended from prudential borrowing to grant financing. Historic MRP charges of £1.6m were not reversed which would have resulted in a debit to the Capital Adjustment Account.</p>   | Nil  | Debit Capital Adjustment Account<br>£1,600                           | Nil   | Nil                                | Not material and an estimated potential error. |
| <p><b>3. Academy cash balances</b></p> <p>A misstatement of £1.557m has been included within the Council's cash balance which relates to schools that have become academies. We would not expect these to be included within the cash balance as they are no longer the responsibility of Herefordshire Council. We have questioned the impact of this error for prior years accounts and have identified that there were no transfers of schools to academies in the prior year and therefore this misstatement only affects the current year.</p> |  | Cash overstated<br>£1,557<br>Earmarked reserves overstated<br>£1,557 |   |                                    |  |

# Audit adjustments (6)

## Impact of unadjusted misstatements

| Detail   | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000  | Balance Sheet<br>£'000   | Impact on total<br>net<br>comprehensive<br>expenditure<br>£'000 | Impact on<br>general fund<br>£'000 | Reason for not<br>adjusting                           |
|--|---|--|---|------------------------------------|---|
| <p><b>4. Land and building areas</b></p> <p>During the year, we have identified an error in two of our selected samples where the GIA which was used in the draft valuation changed changing the valuation by 0.768million. The GIA used in the draft valuation was not correct which was updated post this was picked for sample testing.</p> | <p>Surplus on revaluation of non-current assets, through other comprehensive income overstated:</p> <p>£636</p> | <p>Property, Plant and Equipment overstated:</p> <p>£768</p> <p>Revaluation Reserve overstated</p> <p>£132</p> | <p>Total comprehensive expenditure understated:</p> <p>£636</p> | <p>£nil</p>                        | <p>Not material and an estimated potential error.</p> |

# Impact of unadjusted misstatements in the prior year (1)

The table below provides details of misstatements identified during the prior year audit which were not adjusted for within the final set of financial statements for 2023/24, and the resulting impact upon the 2024/25 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2024/25 financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail  | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000 | Balance Sheet<br>£'000                  | Impact on total<br>net<br>comprehensive<br>expenditure<br>£'000 | Impact on<br>general fund<br>£'000                 | Reason for<br>not<br>adjusting/2024/<br>25 update                         |
|---|--|---|---|--|---|
| <p><b>1. Accruals - 1</b></p> <p>We identified an accrual for £3.134m of expenditure incurred in 2023/24. The associated invoice, received post-year end, amounted to £2.349m, with £2.296m relating to 23/24. Of the original accrual, only £2.189m related to this invoice, therefore the accrual is understated by £0.107m and so the expenditure for 2023/24 is understated by this amount, and the expenditure for 2024/25 is overstated by the same.</p> <p>We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement could be £360,000.</p> | <p>Net cost of services expenditure understated</p> <p>£360</p>  | <p>Accruals understated</p> <p>£360</p> | <p>Net surplus overstated</p> <p>£360</p>                       | <p>General fund balance overstated</p> <p>£360</p> | <p>Immaterial estimated error</p> <p>No continuing impact on 2024/25.</p> |

# Impact of unadjusted misstatements in the prior year (2)

| Detail   | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000  | Balance Sheet<br>£'000 | Impact on total<br>net<br>comprehensive<br>expenditure<br>£'000 | Impact on<br>general fund<br>£'000                    | Reason for<br>not<br>adjusting/2024/<br>25 update               |
|--|---|------------------------|---|---|---|
| <p><b>2. Accruals - 2</b></p> <p>From our expenditure invoice testing, we identified several examples where expenditure either wasn't fully accrued in prior years, or accruals were not accurate. These examples gave rise to a total overstatement in the 2023/24 expenditure of £99,815.</p> <p>We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement could be £2.905 million.</p> | <p>Net cost of services expenditure understated</p> <p>£2,905</p> |                        | <p>Net surplus understated</p> <p>£2,905</p>                    | <p>General fund balance understated</p> <p>£2,905</p> | <p>Immaterial error</p> <p>No continuing impact on 2024/25.</p> |

# Impact of unadjusted misstatements in the prior year (3)

| Detail   | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000  | Balance Sheet<br>£'000                                      | Impact on total net<br>comprehensive<br>expenditure<br>£'000   | Impact on<br>general fund<br>£'000   | Reason for<br>not<br>adjusting/2024/<br>25 update   |
|--|---|---|--|--|---|
| <p><b>3. Land and building floor areas</b></p> <p>Through our testing of the other land and buildings valuations we sought to verify the floor areas used by the valuer in their calculations. In a number of cases, we identified variances between the floor areas used by the valuer and those supported by technical site drawings.</p> <p>In some cases, the valuations were overstated as a result, and in some cases understated. As such, we had no reason to believe that there has been any deliberate attempt to inflate the valuations.</p> <p>The net impact of those assets which were tested was an overstatement in the property, plant and equipment of £714k, with the misstatement being a mixture of overstatements and understatements which netted off.</p> <p><i>(Continued overleaf)</i></p> | <p>Net cost of services expenditure understated</p> <p>£1,416</p> | <p>Property, plant and equipment overstated</p> <p>£714</p> | <p>Net surplus overstated</p> <p>£714</p> <p>(Net cost of service expenditure is understated by £1,416k, however other comprehensive income is also understated by £702k, such that the net effect on total comprehensive income is an overstatement of the surplus position by £714k)</p> | <p>£nil as the charge to the general fund is transferred to the capital adjustment account</p> | <p>Immaterial error.</p> <p>Four out of five assets identified in the prior year were revalued as part of 2024/25. The remaining one asset has been considered as part of assets not revalued. No continuing impact on 2024/25.</p> |

# Impact of unadjusted misstatements in the prior year (4)

| Detail | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000 | Balance Sheet<br>£'000 | Impact on total<br>net<br>comprehensive<br>expenditure<br>£'000 | Impact on<br>general fund<br>£'000 | Reason for<br>not adjusting |
|--------|--|------------------------|---|------------------------------------|-----------------------------|
|--------|--|------------------------|---|------------------------------------|-----------------------------|

### 3. Land and building floor areas (continued)

The other side of the error is an understatement in the revaluation reserve (£702k) and an understatement in the charge through the surplus or deficit on provision of services, which would ultimately be transferred to the capital adjustment account (CAA) (£1,416k).

We estimated that, if the error found in our sample were representative of the population from which it was selected, then the total misstatement in PPE could be £1,121k, in the revaluation reserve it could be £1,103k and in the CIES/CAA it could be £2,224k.

Not that similar errors have been found in the current year .

|   |                                  |                              |                                   |  |  |
|---|----------------------------------|------------------------------|-----------------------------------|--|--|
| Potential overall impact of prior year unadjusted misstatements | Expenditure overstated<br>£1,129 | Accruals understated<br>£360 | Net surplus understated<br>£1,831 | General fund balance understated<br>£2,545 |  |
|   |                                  | PPE overstated<br>£714       |                                   |  |  |

# Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our 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  |
|------------------------|---|--|
| <p>●</p> <p>Medium</p> | <p><b>Issue</b></p> <p>We have identified an immaterial reportable differences in the capital financing requirement and the council and group cash flow (page 42).</p> <p>Management have not been able to provide a suitable explanation for the total variances identified.</p> | <p>We recommend that management investigate these differences further and seek to either correct, or be in a position to explain it, in time for the 2025/26 financial statements audit.</p> <p><b>Management response:</b></p> <p>The Council has assessed the calculation of its CFR by reference to the Prudential Code and the CIPFA Practitioners' Guide to Capital Finance in Local Government (2019), comparing the CFR items on the balance sheet at 31 March 2025 with the disclosure per Note 21: Capital expenditure and capital financing. A review has been completed, resulting in an adjustment to Note 21 and an immaterial unadjusted misstatement. The immaterial cashflow reconciliation difference will be reviewed for 2025/26 closedown.</p> |

## Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

# Follow up of prior year recommendations (1)

We identified the following issues in the audit of the Authority's 2023/24 financial statements, which resulted in recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on these recommendations below.

| Assessment   | Issue and risk previously communicated  | Update on actions taken to address the issue  |
|--|---|---|
| <p data-bbox="104 572 453 608"><b>Ongoing</b></p> <p data-bbox="104 625 453 925">There has been no change to the Council's approach to journals below this limit and we feel that the risks described in the prior year remain relevant in the current year.</p> | <p data-bbox="494 572 1702 608"><b>Issue</b></p> <p data-bbox="494 625 1702 696">We noted that there is no formal review process for journals which fall below £2 million total value, or £250,000 for an individual journal line.</p> <p data-bbox="494 718 1702 829">Additionally, we noted a case where a member of the finance team had been requested to post journals without appropriate support being supplied and this was not challenged by the member of the finance team before posting the journal.</p> <p data-bbox="494 836 1702 1058">Management perform monthly budget monitoring, which they believe sufficiently reduces the risk of material misstatement from journals below the authorisation limit, however there is a risk that this may be insufficient to identify inappropriate journals which could cumulatively become material. We targeted our testing towards journals which fell in the £225,000 - £250,000 range and did not identify any instances of management override of controls.</p> <p data-bbox="494 1075 1702 1110"><i>(continued overleaf)</i></p> | <p data-bbox="1742 572 2443 758">We recommended that the Council implements a process whereby some, if not all, of the journals below the current threshold are reviewed and that evidence of this review is retained for future audits.</p> <p data-bbox="1742 779 2443 815"><b>Management update:</b></p> <p data-bbox="1742 836 2443 1129">There are robust controls in place over the processing of journals to ensure segregation of duties with supplementary controls to ensure secondary review through routine monthly budget monitoring arrangements. This process ensures that instances of incorrect postings, at a cost centre level, are identified in a timely manner.</p> |

# Follow up of prior year recommendations (2)

| Assessment | Issue and risk previously communicated   | Update on actions taken to address the issue |
|------------|--|--|
|            | <p><b>Risk</b></p> <p>Not having robust controls around the approval of journals presents a number of risks:</p> <ol style="list-style-type: none"> <li>1. Without formal approval processes, there is a lack of accountability for the accuracy and validity of journal entries. This can lead to ambiguity regarding the individuals responsible for authorising and verifying the entries, making it difficult to assign accountability for errors or irregularities.</li> <li>2. The absence of journal approval procedures can compromise the transparency and integrity of financial records. It may result in unauthorised or unverified entries being included in the accounting system, making it challenging to track and understand the origin and purpose of specific transactions.</li> <li>3. Not having journals approved can create opportunities for errors, misstatements, or fraudulent activities to go undetected. It undermines the principle of segregation of duties and internal controls, increasing the risk of unauthorized or inappropriate journal entries being made without proper scrutiny.</li> <li>4. Unapproved journal entries can result in inaccuracies in financial statements, potentially leading to misstated financial results and misinformed decision-making. It may also impact the organisation's ability to provide reliable and transparent financial information to stakeholders and investors</li> </ol> |  |

# Follow up of prior year recommendations (3)

| Assessment   | Issue and risk previously communicated   | Update on actions taken to address the issue  |
|--|--|---|
| <p><b>Ongoing</b></p> <p>The Council have updated their journal review spreadsheet to include additional information about the timing of the review and the reviewer. However, we still consider that this process of reviewing journals in a spreadsheet, outside the ledger system, is at risk of manipulation; although we recognise that the Council is limited by the functionality of their accounting system.</p> | <p><b>Issue</b></p> <p>For journals posted throughout the year which fall above the £2 million/£250,000 authorisation limit, we noted that only an excel spreadsheet is maintained which summarises the journals but does not show any evidence that these have been appropriately reviewed. Management have assured us that the review takes place in practice, however without any evidence of this we have not be able to verify if that is the case.</p> <p><b>Risk</b></p> <p>There is a risk that the expected review and approval of journals is not taking place in practice. Please see page 51 for a discussion of the risks associated with a lack of robust journals approval processes.</p> | <p>We recommended that the Council implements a process whereby evidence of the review of all journals above the review threshold is retained for audit.</p> <p><b>Management update:</b></p> <p>There are robust controls in place over the processing of journals to ensure segregation of duties with supplementary controls to ensure secondary review through routine monthly budget monitoring arrangements. This process ensures that instances of incorrect postings, at a cost centre level, are identified in a timely manner. Evidence of review for audit purposes has been added to the spreadsheet.</p> |

# Follow up of prior year recommendations (4)

| Assessment   | Issue and risk previously communicated  | Update on actions taken to address the issue   |
|--|---|--|
| <p><b>Ongoing</b></p> <p>From our testing this year, we have found further instances of misstatement from either inaccurate of missing accruals, therefore this recommendation remains open.</p> | <p><b>Issue</b></p> <p>From our testing, we have identified several instances of the accruals concept not being appropriately applied. We note that this was identified as an issue in the prior year also, and a recommendation was made. It appears that this remains a problem, although we are satisfied that the impact on the accounts is not currently likely to be material.</p> <p><b>Risk</b></p> <p>Not consistently applying the accruals concept presents a number of risks:</p> <ul style="list-style-type: none"> <li>– Not applying the accruals concept can result in misleading financial statements that do not accurately reflect the company's financial position and performance. This can impact the ability of stakeholders to make informed decisions.</li> <li>– Inaccurate financial reporting resulting from not applying the accruals concept can hinder effective planning and decision-making. Management relies on accurate financial information to make strategic decisions, and a lack of accrual accounting can impede this process.</li> <li>– Without the accruals concept, the valuation of assets, liabilities, and equity can be distorted, impacting the organisation's overall financial position and performance measures.</li> </ul> | <p><b>Update on actions taken to address the issue</b></p> <p>We recommended that management reviews their processes and controls surrounding the accurate application of the accruals concept to ensure that all income and expenditure is recognised in the period to which it relates.</p> <p><b>Management update:</b></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 recording.</p> |

# Follow up of prior year recommendations (5)

| Assessment  | Issue and risk previously communicated   | Update on actions taken to address the issue   |
|---|--|--|
| <p><b>Ongoing</b></p> <p>From our testing this year, we have found further instances of misstatement from inaccurate floor area data used by the valuer in the valuation of both the investment properties and the other land and buildings</p> | <p><b>Issue</b></p> <p>We identified that incorrect floor area data had been used in the valuation of the property, plant and equipment. We are satisfied that the impact of the error is unlikely to be material however we have only reviewed a sample of assets.</p> <p><b>Risk</b></p> <p>There is a risk that the property, plant and equipment could be misstated as a result of using inaccurate data</p> | <p>We recommended that management reviews the floor area data shared with the valuer to ensure it is accurate.</p> <p><b>Management update:</b></p> <p>We have continued to review the floor area evidence to provide assurance over data integrity.</p> |

# **08 Value for Money arrangements**

# Value for Money arrangements

## Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30<sup>th</sup> November each year from 2024-25. Our draft AAR will be reported to you at the Audit and Governance Committee on 25 September 2025.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.



### Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



### Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



### Governance

How the body ensures that it makes informed decisions and properly manages its risks.

In undertaking this work we have identified significant weaknesses in arrangements. These are outlined in detail within our Auditor's Annual Report.

# **09 Independence considerations**

# Independence considerations (1)

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, there are no independence matters that we would like to report to you.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. No such breaches have been identified.

- We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard
- Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

# Independence considerations (2)

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

| Matter  | Conclusions  |
|---|--|
| Relationships with Grant Thornton                 | We are not aware of any relationships between Grant Thornton and the Authority or group 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 Authority or group or investments in the group 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 Authority or group 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 Authority or group.   |
| 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 Authority/group, senior management or staff (that would exceed the threshold set in the Ethical Standard).  |

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 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.

# Fees and non-audit services (1)

The following tables below sets out the total fees for audit and non-audit services that we have been engaged to provide or charged from the beginning of the financial year to September 2025, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

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

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

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Herefordshire Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees.

| <b>Audit fees</b>                                 | <b>£</b>       |
|---|----------------|
| Audit of Authority (scale fee)                    | 391,322        |
| Introduction of IFRS16*                           | 1,500          |
| Additional fee in relation to Investigation work* | 23,344         |
| <b>Total</b>                                      | <b>416,166</b> |

\* Potential for additional fees was flagged in our Audit Plan as this is the first year of the implementation of the new standard. This has been calculated based on the additional time taken to gain assurance over the Council's approach and implementation.

\*\* The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of a capital programme (please see page 20). The final fee in relation to this additional work will be reported in the final version of our Audit Findings Report.

# Fees and non-audit services (2)

## Audit-related non-audit services

| Service  | 2023/24<br>(£) | 2024/25<br>(£) | Threats Identified   | Safeguards applied   |
|--|----------------|----------------|--|--|
| Certification of Housing Benefits Subsidy claim – 2020/21  | 51,823         | -              | Self-Interest (because this is a recurring fee)<br>Self-review (because Grant Thornton provides audit services)<br>Management (as Grant Thornton reports to the grant paying body) | 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 £152,146 in comparison to the total fee for the audit of £391,322 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 risk to an acceptable level. |
| Certification of Housing Benefits Subsidy claim – 2021/22* | 28,698         | 28,698         |  |  |
| Certification of Housing Benefits Subsidy claim – 2022/23* | 28,698         | 28,698         |  |  |
| Certification of Housing Benefits Subsidy claim – 2023/24  | -              | 72,250         |  |  |
| Certification of teachers' pension claim – 2020/21         | 5,500          | -              |  |  |
| Certification of teachers' pension claim – 2022/23         | -              | 10,000         |  |  |
| Certification of teachers' pension claim – 2023/24         | -              | 12,500         |  |  |
| <b>Total</b>   | <b>114,719</b> | <b>152,146</b> |  |  |

\*These services were engaged in prior periods but have continued to be delivered into 2024/25 and therefore are included in both years.

## Total audit and non-audit fee

Audit fee: £391,322

Non-audit fee: £152,146

The above fees are exclusive of VAT and out of pocket expenses.

# Fees and non-audit services (3)

The fees reconcile to the financial statements as follows:

| <b>Service</b>  | <b>2023/24<br/>(£)</b> | <b>2024/25<br/>(£)</b> |
|---|------------------------|------------------------|
| Audit of Authority  | 391,839                | 416,166                |
| <b>Services engaged in 2023/24:</b>                       |                        |                        |
| Certification of Housing Benefits Subsidy claim – 2020/21 | 51,823                 |                        |
| Certification of Housing Benefits Subsidy claim – 2021/22 | 28,698                 |                        |
| Certification of Housing Benefits Subsidy claim – 2022/23 | 28,698                 |                        |
| Certification of teachers' pension claim – 2020/21        | 5,500                  |                        |
| <b>Services engaged in 2024/25:</b>                       |                        |                        |
| Certification of Housing Benefits Subsidy claim – 2023/24 |                        | 45,450                 |
| Certification of teachers' pension claim – 2022/23        |                        | 10,000                 |
| Certification of teachers' pension claim – 2023/24        |                        | 12,500                 |
| <b>Total (agrees to financial statements)</b>             | <b>506,558</b>         | <b>484,116</b>         |

This covers all services provided by us and our network to the group/Authority, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

# Additional fee analysis – fee variation for IFRS 16

The following table sets out further information on additional fees.

| Grade                  | Rate (Determined by PSAA) | Hours | Fee variation for Audit 2024/25  |
|------------------------|---------------------------|-------|--|
| Partner/Director       | £428                      | 0     | Senior review time has been absorbed into the allocated review time for the audit. |
| Senior Manager/Manager | £236                      | 0     |  |
| Senior Auditor         | £153                      | 0     | N/a  |
| Other staff            | £117                      | 13    | 1,500 (rounded).   |
| <b>Total</b>           |                           |       | <b>1,500</b>   |

The above is subject to review by PSAA who will make a final determination.

# Additional fee analysis – fee variation for Investigation Work

The following table sets out further information on additional fees.

| <b>Grade</b>           | <b>Rate (Determined by PSAA)</b> | <b>Hours</b> | <b>Fee variation for Audit 2024/25</b> |
|------------------------|----------------------------------|--------------|--|
| Partner/Director       | £428                             | 38           | 16,264                                 |
| Senior Manager/Manager | £236                             | 30           | 7,080                                  |
| Senior Auditor         | £153                             | 0            | 0                                      |
| Other staff            | £117                             | 0            | 0                                      |
| Total                  |                                  | 68           | 23,344                                 |

The above is subject to review by PSAA who will make a final determination.

# Appendices

# A. Communication of audit matters with 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 matters in relation to going concern  | ●          | ●              |
| Matters in relation to the group audit  | ●          | ●              |
| Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures   |            | ●              |
| 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  |            | ●              |

# A. Communication of audit matters with those charged with governance

| Our communication plan  | Audit Plan | Audit Findings |
|---|------------|----------------|
| 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, as a minimum a requirement exists for our findings to be distributed to all the company directors and 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 those charged with governance.

# Our team and communications

## Grant Thornton core team

### Grace Hawkins

Engagement Lead

- Key contact for senior management and Audit and Governance Committee
- Overall quality assurance

### Cathy Smith

Audit Manager

- Audit planning
- Resource management
- Performance management reporting

### Priya Sharma

In-charge accountant

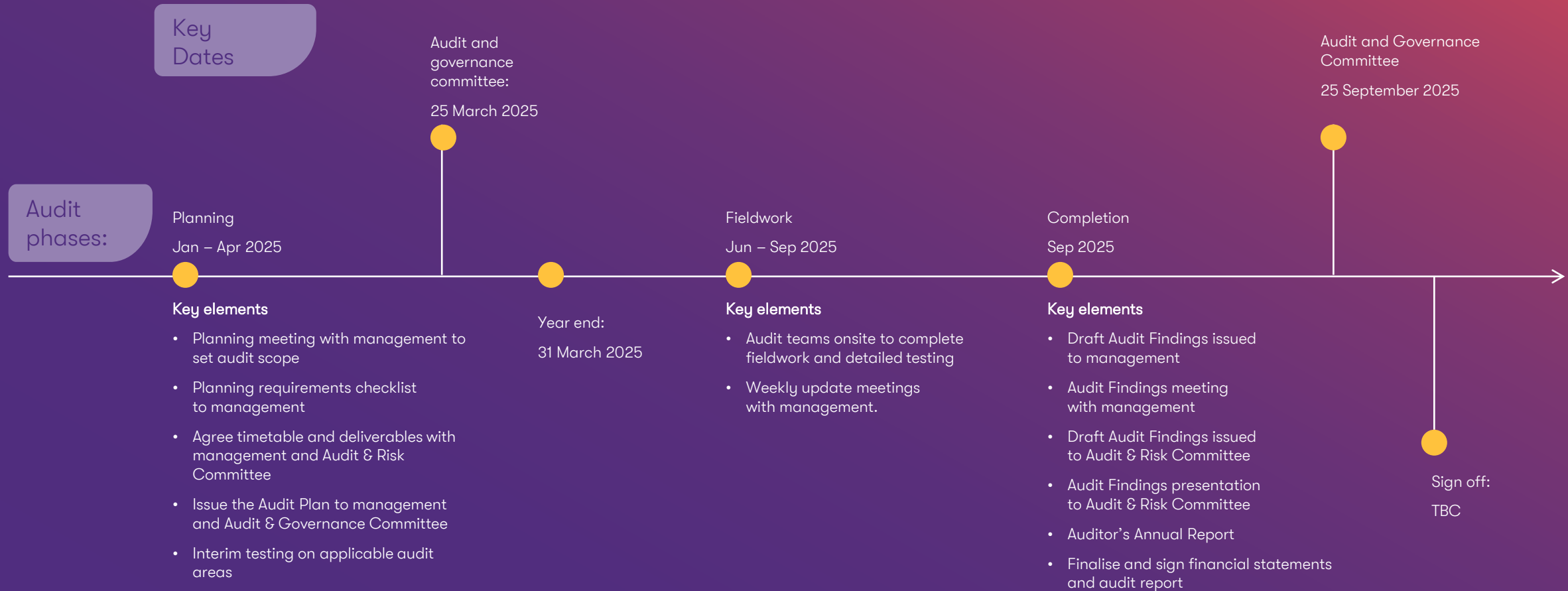
- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

|                                | Audit reporting   | Audit progress   | Technical support  |
|--------------------------------|---|--|--|
| <b>Formal communications</b>   | <ul style="list-style-type: none"> <li>• The Audit Plan</li> <li>• The Audit Findings</li> <li>• Auditor's Annual Report</li> <li>• Progress and Sector Update Reports</li> </ul> | <ul style="list-style-type: none"> <li>• Audit planning meetings</li> <li>• Audit clearance meetings</li> <li>• Communication of issues log</li> </ul> | <ul style="list-style-type: none"> <li>• Technical updates</li> </ul>                |
| <b>Informal communications</b> |   | <ul style="list-style-type: none"> <li>• Communication of audit issues as they arise</li> </ul>  | <ul style="list-style-type: none"> <li>• Notification of up-coming issues</li> </ul> |

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

The audit timeline

# Logistics





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