

Agenda

Audit and Governance Committee

Date: **Tuesday 25 March 2025**

Time: **2.00 pm**

Place: **Conference Room 2, Herefordshire Council Offices,
Plough Lane, Hereford, HR4 0LE**

Notes: Please note the time, date and venue of the meeting.

For any further information please contact:

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Agenda for the meeting of the Audit and Governance Committee

Membership

Chairperson **Councillor David Hitchiner**

Vice-chairperson **Councillor Mark Woodall**

Councillor Chris Bartrum

Councillor Frank Cornthwaite

Councillor Peter Hamblin

Councillor Robert Highfield

Councillor Aubrey Oliver

**Ms Kerry Diamond - Independent
Expert**

Agenda

	Pages
1. APOLOGIES FOR ABSENCE To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY) To receive details of any councillor nominated to attend the meeting in place of a member of the committee.	
3. DECLARATIONS OF INTEREST To receive declarations of interest in respect of items on the agenda.	
4. MINUTES To approve and sign the minutes of the meeting held on 28 January 2025.	11 - 18
HOW TO SUBMIT QUESTIONS Deadline for receipt of questions is 5pm on Wednesday 19 March 2025. Questions must be submitted to councillorservices@herefordshire.gov.uk . Questions sent to any other address may not be accepted. Accepted questions and the response to them will be published as a supplement to the agenda papers prior to the meeting. Further information and guidance is available at www.herefordshire.gov.uk/getinvolved	
5. QUESTIONS FROM MEMBERS OF THE PUBLIC To receive any questions from members of the public.	
6. QUESTIONS FROM COUNCILLORS To receive any questions from councillors.	
7. EXTERNAL AUDITOR'S DRAFT ANNUAL PLAN 2024/25 To review and agree the external auditor's draft annual plan for 2024/25.	19 - 74
8. INTERNAL AUDIT UPDATE REPORT QUARTER 4 2024/25 To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed. To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored through acceptance of agreed management actions and progress updates in implementing the action plans. In addition, occasions where audit actions not accepted by management are documented if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment. Note: Paper to follow; Appendix A SWAP Internal Audit Progress Report Quarter 4 2024-25	75 - 78

9. INTERNAL AUDIT PLANNING PAPER 2025/26	79 - 98
To present the approach to Internal Audit Planning and the Internal Audit Charter for 2025-26 to the Audit and Governance Committee for discussion and approval.	
10. STATUTORY ACCOUNTS 2024/25 PROGRESS, ACCOUNTING POLICIES AND ESTIMATES	99 - 120
To provide an update on progress made against the 2024/25 statutory accounts workplan and present the accounting policies and estimates which inform the financial statements.	
11. UPDATE TO RISK MANAGEMENT ARRANGEMENTS	121 - 138
To provide an update on the council's approach to risk management arrangements.	
12. WORK PROGRAMME	139 - 142
To consider the work programme for the committee.	
13. DATE OF NEXT MEETING	
Tuesday, 10 June 2025. 2pm.	

The public's rights to information and attendance at meetings

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We will review and update this guidance in line with Government advice and restrictions. Thank you for your help in keeping Herefordshire Council meetings safe.

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- Inspect agenda and public reports at least five clear days before the date of the meeting. Agenda and reports (relating to items to be considered in public) are available at www.herefordshire.gov.uk/meetings
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting (a list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all councillors with details of the membership of cabinet and of all committees and sub-committees. Information about councillors is available at www.herefordshire.gov.uk/councillors
- Have access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title. The council's constitution is available at www.herefordshire.gov.uk/constitution
- Access to this summary of your rights as members of the public to attend meetings of the council, cabinet, committees and sub-committees and to inspect documents.

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The location of the office and details of city bus services can be viewed at:

www.herefordshire.gov.uk/downloads/file/1597/hereford-city-bus-map-local-services-

The Seven Principles of Public Life (Nolan Principles)

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.

Guide to the Audit and Governance Committee

The Audit and Governance Committee comprises seven members of the council and may also include an independent person who is not a councillor but is appointed by council.

Councillor David Hitchiner (Chairperson)	Independents for Herefordshire
Councillor Mark Woodall (Vice-Chairperson)	The Green
Councillor Chris Bartrum	Liberal Democrats
Councillor Frank Cornthwaite	Conservative Party
Councillor Peter Hamblin	Conservative Party
Councillor Robert Highfield	Conservative Party
Councillor Aubrey Oliver	Party Liberal Democrats
Ms Kerry Diamond	Independent Expert

The Audit and Governance Committee is responsible for proving assurance on the council's audit, governance (including risk management and information governance) and financial processes in accordance with the functions scheme.

The committee shall:

- (a) review and examine, and where required in depth examine, matters relating to internal audit, external audit, risk management, governance, assurance statement, anti-fraud and anti-corruption arrangements as well as any other function to meet the Council's audit committee requirements
- (b) enhance and promote the profile, status and authority of the internal audit function and to demonstrate its independence
- (c) contribute towards making the authority, its committees and departments more responsive to the audit function
- (d) review compliance with the relevant standards, code of conduct, codes of practice and corporate governance policies
- (e) act within the Council's Constitution.

Minutes of the meeting of the Audit and Governance Committee held in Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Tuesday 28 January 2025 at 2.00 pm

Committee members present in person and voting: Councillors: David Hitchiner (Chairperson), Mark Woodall (Vice-Chairperson), Chris Bartrum, *Frank Cornthwaite, Robert Highfield, Aubrey Oliver

Non-Voting Committee Person: K Diamond – Independent Expert

[Note: Committee members participating via remote attendance, i.e. through video conferencing facilities, may not vote on any decisions taken*.]

Others in attendance:

C Christopher	Commercial Services Manager
S Halliwell	Senior Lawyer
J Nelson	Counter Fraud Manager
S O'Connor	Head of Legal Services and Deputy Monitoring Officer
J Preece	Democratic Services Officer
A Probert	Head of Internal Audit, South West Audit Partnership
R Sanders	Director of Finance

Councillors in attendance
Cllr P Stoddart
Cllr L Harvey

Cabinet Member Finance and Corporate Services

27. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Peter Hamblin.

28. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes.

29. DECLARATIONS OF INTEREST

No declarations of interest were made.

30. MINUTES

RESOLVED:

That the minutes of the meeting held on 29 October 2024 be confirmed as a correct record and signed by the chairman.

31. QUESTIONS FROM MEMBERS OF THE PUBLIC

There were no questions received from members of the public.

32. QUESTIONS FROM COUNCILLORS

There were no questions received from Councillors.

33. CODE OF CONDUCT FOR COUNCILLORS UPDATE 2024/25

The Head of Legal Services (HLS) introduced the report the following points were highlighted:

- The Council had received 24 Code of Conduct complaints since the last update, 3 of which were against Hereford Councillors and 21 against Parish Councillors.
- Over half of complaints were raised by residents and there were no complaints raised by members of Herefordshire council or officers. 46% of complaints had been raised by parish, town and city councillors.
- Looking at the breakdown of what had been done with these complaints over the last two years, it was noted only two of the complaints actually went to Investigation posing the question why so many complaints were being received with so little merit and what could be done to promote other avenues.
- Information provided by NALC had indicated that only 7 Parish/Town Councils had signed up to the Civility and Respect Pledge, the second lowest in the country. It was agreed that we would consider ways to promote the pledge which in the long run could aid in reduced complaints and aid in the reduction of resources.
- Appendix 1 was highlighted where increases were seen in Ross and Wye Town Council and Homer and Shelwick and Colwall in the last six months. It was noted no complaints had been received by Bartestree and Lugwardine and Walford and Llangarron which historically have had higher levels of complaints.
- The theme of complaints was still predominantly around disrespect and non-declaring of a personal interest.
- The average time taken in days from receipt of a complaint to the initial decision of the Monitoring Officer was 22 days.
- The response time for the Independent Persons to provide their views on matters is currently an average of 2 days which is considered to be exceptional and, in many cases, have been received the same day.
- One formal investigation had taken place during the period and took 56 days due to the number of interviews and delays in interviewees making themselves available. The matter is due to be referred to a Standards Panel.
- The Independent person (IP) highlighted how the report was extremely helpful in setting the scene and clearly explaining the issues. It provided a good level of transparency, the IP's felt their views are considered and feel valued. The organisation of the effective team under the monitoring officer was highlighted and that there was a clear understanding of their role, remit, responsibilities which ensures complaints are dealt with swiftly for all parties. They were encouraged to see that some parish councils were addressing their training and governance arrangements.

The HLS and Chair expressed they're thanks to the IPs for their contributions.

- Following the committee's recommendation, a letter was sent to the secretary of state asking her to introduce a more effective standards regime with appropriate sanctions. The government had launched a consultation which the Council's response and recommendations can be found at appendix 2. The response had been drafted by officers, but the views of the committee and Group Leaders had been sought.

In response to committee questions.

1. The HLS explained that complaints submitted with no merit are dealt with almost immediately. Complaints that are required to be looked in to would normally take on average 22 days.
2. It was confirmed that it can take up to 3 months from Initial Assessment decision when a matter is proceeding to formal investigation, to outcome following that investigation.
3. The committee were reminded that the purpose of sharing decisions with the standards panel members was to keep them aware of the volume of work, what the decisions are being taken by the monitoring officer and for them to have strategic oversight.

RESOLVED:

The Committee noted the update on the Code of Conduct complaints arrangements and approved the draft response to Ministry of Housing, Communities and Local Government (MHCLG) as set out in Appendix 2.

Action(s):

2023/24-049 Further consideration be given to promoting the Civility and Respect Pledge which in the long run could aid in reduced complaints and aid in the reduction of resources. The monitoring officer to write to ward and town councillors to promote and inform them of the Civility and Respect Pledge. The Committee to be provided with updated figures on participation in the next report to the Committee.

2023/24-052 The monitoring officer to respond to the government consultation on Strengthening the standards and conduct framework for local authorities in England.”

34. UPDATE TO FINANCE AND CONTRACT PROCEDURE RULES

The Director of Finance (DOF) introduced the report, the purpose of which was to provide an update on the contract procedure rules and financial procedure rules and guidance notes. They were last reviewed by the committee in January 2024 and updates were needed to reflect required legislative changes due to the procurement act and procurement regulations that came in to force the following month as well as some changes in job descriptions through the financial procedure rules. A summary of the changes could be seen at paragraphs 10 and 12 of the report.

In response to committee questions:

1. It was explained that to engage smaller/ local suppliers relied on good engagement early on and communication and sharing of information and making sure that the requirements through the tender process are proportionate to the size of the contract. The Priority Supplier Programme had been introduced which is an early payment programme that gives suppliers the opportunity to be paid earlier than contracted terms. It was noted that new regulations encouraged greater premarket engagement.
2. The Commercial Services Manager (CSM) confirmed that there were local companies bidding for work, particularly in mortgage construction and minor works areas. It was thought that there was still work that could be done to encourage other companies and look at opportunities in dividing contracts to make works more accessible for local suppliers such as encouraging larger suppliers to work with local supply chain and subcontractors.

3. It was explained that there are mechanisms within the new legislation to direct awards in certain circumstances, for example, protection of life and users' choice.
4. The use of the dynamic market process was explained.
5. Each director is responsible for appointing contract managers within their directorate area to manage contracts. Any officers that are dealing with procurement or contract management related activity in their role should either have the requisite experience in contract management and procurement or would be appropriately trained. The Commercial Services team offer both sets of training, procurement, and contract management, twice yearly to those officers. There is also an online introduction to the contract procedural and finance procedure rules that must be completed once a year to ensure they keep themselves updated of the procedures.
6. The Senior Lawyer (SL) confirmed under the new rules all contracts over £5 million must have 3 Key Performance Indicators (KPIs) published. The Waste Contract and Public Realm contracts did have KPI's within their contracts but there was no legal requirement to publish them. The SL would investigate if it were permissible for these to be published.
7. There were provisions within the waste contract to vary the KPIs, work was ongoing to ensure that the KPIs that go into the public realm contract will have similar mechanisms as where contracts are for a number of years, requirements and ways to measure performance will change over time.
8. In the procurements and contracts, it is stated that companies should reduce the environmental impact of the contract, the use of electrical vehicles had already been looked at in terms of the public realm contract.
9. The DOF explained that a key part of the transformation strategy was to ensure that the council and officers are equipped with the right skill set to be able to take on commercial negotiations, drive out value for money and improve services in the councils contracting arrangements. It was highlighted that the annual audit letters, which was a summary of value for money work, highlighted that the council has a good contract management arrangement in place. Last year the auditors had specifically looked at the waste contract and they had made positive statements around that activity.

RESOLVED:

The committee approved the updates as technical changes to the constitution the Contract Procedure Rules at Appendix 1, Financial Procedure Rules at Appendix 2 and the Financial Procedure Rules Guidance Notes at Appendix 3.

Action(s)

2023/24-050 The Senior Lawyer to investigate the waste and public realm contracts to see if it was permissible to publish the KPIs.

35. ANNUAL GOVERNANCE STATEMENT PROGRESS UPDATE

The Director of Finance (DOF) introduced the report the purpose of which was to provide the committee with an update to areas that could be strengthened to the governance arrangements and provide assurance that work was ongoing and not just a year end exercise. Appendix 1 provided an update against each of the areas of improvement linked back to the core principles that they related to.

In response to committee questions the DOF highlighted that she and her team were not solely responsible for contributing to the Annual Governance Statement, that it was a council document informed by a variety of different sources including the Corporate Leadership Team, Heads of Service and Internal Audit Opinion.

The committee noted the activity completed to deliver improvements in governance arrangements in 2024/25.

36. UPDATE TO RISK MANAGEMENT ARRANGEMENTS

The Director of Finance (DOF) introduced the report the purpose of which was to provide an update on the council's approach to risk management arrangements. The principal points were noted:

- The Corporate Leadership Team (CLT) had taken part in a risk management workshop that morning, hosted by South West Audit Partnership (SWAP) where risk appetite and tolerance was discussed and considered in the context of the council plan and the priorities of the council plan around people, place, growth and transformation

Next Steps Included

- Updating the corporate risk registers ensuring the risks are proportionate and where appropriate mitigations, they are linked to the risk appetite.
- Sharing and informing colleagues across the organisation of risk appetite to empower officers in their decision making and activities.
- Additional training and information sessions to ensure that director activity is consistent with the strategic approach.
- Attention was drawn to the timeline of planned activity.

In response to committee questions, it was noted:

1. It was noted that whilst aligning the strategy to the core principles of the council plan the underpinning theme across all those principles was working and joining up all the relevant bodies across the county to also consider cabinet priorities and making sure that the council is considering risks.
2. A realistic and robust budget for adult's services in the community wellbeing directorate had been set which had been considered by the in-year cost pressures. and the likely impact of demand, growth and the direct impact of employees national Insurance etc on social care contracts. It had been through the scrutiny process and discussed at cabinet twice and was due to be considered and approved by full council. Cabinet had also approved the transfer of £11 million from the business rates risk reserve to a budget resilience reserve which will exist to support and mitigate those risks of emerging demand in future financial years.
3. The DOF clarified that there were no costs incurred for the workshop that had been provided by SWAP and was included as part of the council's annual contract and services and the external risk management company as part of the council's insurance arrangement. Both perspectives at the workshop were of great value.

The committee noted the activity completed to develop the Risk Management Strategy.

37. ANTI-FRAUD, BRIBERY & CORRUPTION ANNUAL REPORT

The Counter Fraud Manager (CFM) presented the report, the purpose of which was to provide an overview on all counter fraud activity across the council's services throughout the previous calendar year and represent an up-to-date account of the work undertaken, including progress and outcomes aligned with the council's strategy and core objectives. The following key points were highlighted:

- There had been a further increase in the number of corporate fraud referrals, an uptrend over the past three years. Whilst increases are positive in many ways as

it shows confidence and accessibility in reporting systems, it can also pose a challenge due to the increased volume of work on resources allocated to respond.

- Further challenges in 2024 such as understanding of how the fraud risks continue to develop across the organisation, increasing evolution and adaptation of artificial intelligence and risks associated with this emerging technology being utilised by bad actors was highlighted.
- 96.5% success rate of all staff completing fraud awareness training.
- 2 new strategic pillars in deter and protect had been added which aimed to capture and report to the committee some of the key existing measures that the Council had in both deterring fraud and protecting local residents from the risk of fraud.

In response to committee questions, it was noted.

1. The CFM explained that a large percentage of referrals comes from external means, this could be via a postal form, the public referral hotline or digital reporting form. Most referrals utilised the anonymity option.
2. The CFM confirmed a joint working agreement with the Department for Work and Pensions was in place. An increase in the number of criminal investigations being jointly worked between both organisations was noticed and benefited in the number of civil recoveries being achieved. The importance of joint working with other enforcement agencies was highlighted to have significant impact and reduce the risk of fraud.
3. The CFM confirmed that there is mandatory awareness training which reaches all staff across the Council and more targeted training for grant schemes.
4. It was explained that benchmarking fraud prevention against other local authorities would be difficult.
5. Council tax revenues and benefits remains a high area of referrals which marries nationally and what was being seen through other local authorities that engage in the Midlands fraud group, (a hub of corporate fraud investigators that share intelligence across the UK).
6. The committee were informed that the CFM was the sole full time equivalent officer that deals with corporate fraud in the council and that there could be some benefit in additional resources.
7. The DOF highlighted that the counter fraud service is supported by colleagues across the organisation such as finance, benefits and revenues but would continue to review the resources and the cost benefit of what is able to be recalled in terms of avoided fraud.
8. The Head of Internal Audit also advised the committee that she was working with the council tax team about second homes and sharing within the swap partnership about what their partners were doing.

The committee noted the report and deemed the annual fraud arrangements as satisfactory.

38. INTERNAL AUDIT UPDATE REPORT QUARTER 3 2024/25

The Head of Internal Audit (HIA) introduced the report the purpose of which was to update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed and to assure the committee that action was being taken on risk related issues identified by internal audit.

The principal points were noted:

- No high organisational risks had been identified.
- 2 Limited assurances were identified of which there were 7 priority 2 findings.

- 4 priority two actions were identified in the use of spot purchasing, non-accommodation audit and 3 were from the Court of Protection Audit.
- Four audits had been completed since the last progress report with 11 currently in progress and 3 at draft report stage.
- Links to corporate risks remain largely the same as the last progress update but this is to be expected as SWAP awaits the Council's revised Corporate Risk Register.
- Once the corporate risk registers had been revisited, updates would be made to the dashboard with the corporate risks and moving forward officers would work to and agree the best approach for providing members with assurance for those areas with no coverage.
- Adjustments had been made to the visual presentation on the Internal audit work programme and coverage dashboard used to identify the coverage at the request of the committee at the previous meeting.
- 27 actions had been closed off since the last update with a further 11 actions having been agreed with Council officers. 44 actions are pending remediation. Work would continue to gain an update from the responsible officers allocated to the actions. Work would continue to concentrate on those that are most overdue.
- A continued high feedback score of 99% was still being achieved

The committee noted the report and were satisfied with the areas of activity and necessary improvements outlined.

39. CHAIRPERSONS REMARKS - LOCAL AUDIT REFORM RESPONSE

The Director of Finance (DOF) gave an overview of what the Local Audit Reform consultation contained. The main responses included.

- The council strongly disagreed with any proposals of loosening to statutory deadlines. Herefordshire was the first and only Council in the country to have their accounts signed off by the statutory deadline for 23/24 and to receive an annual audit report.
- The council is supportive of simplifications to the financial reporting regime and a good practical response by the audit sector, which is proportionate to the financial risks.

Action(s)

023/24-051 The DOF to circulate the council's response to the Local Audit Reform consultation to committee members.

40. WORK PROGRAMME

The Risk Management Strategy had been added to the work programme for 25 March 2025.

RESOLVED

That the work programme be agreed.

41. DATE OF NEXT MEETING

Tuesday, 25 March 2025. 2pm.

42. EXCLUSION OF THE PUBLIC AND PRESS

Recommendation) That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business

Internal Audit Update Report Quarter 3 2024/25, Appendix B – Court of Protection on the grounds that it involves the likely disclosure of exempt information as defined in Schedule 12(A) of the Act (as amended) as indicated below.

3 Information relating to the financial or business affairs of any particular person (including the authority holding that information)

And the public interest in maintaining this exemption outweighs the public interest in disclosing the information.

RESOLVED

That the exempt appendix listed at Item 12 on the agenda be discussed in closed session.

The meeting ended at 4.25 pm

Chairperson



Title of report: External auditor's draft annual plan 2024/25

Meeting: Audit and Governance Committee

Meeting date: Tuesday 25 March 2025

Report by: Director of Finance, Chief Accountant

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To review and agree the external auditor's draft annual plan for 2024/25.

Recommendation(s)

That:

- a) The proposed external audit annual plan for 2024/25 in Appendix A is approved subject to any recommendations that the committee may wish to make; and**
- b) The committee determine any recommendations it wishes to make to maximise the value of the external audit processes.**

Alternative options

1. There are no alternative options to approving an external audit plan. The audit plan must meet statutory requirements, however it is open to the committee to identify and additional areas of risk they wish the external auditors to consider and to recommend any additional actions to maximise the value of the external audit process.

Key considerations

2. The constitution provides that the Audit and Governance Committee will:
 - a. Review and agree the external auditor's annual plan and receive regular update reports on progress; and
 - b. Comment on the scope and depth of external audit work and to ensure it gives value for money; and
 - c. Ensure that there are effective relationships between external and internal audit and that the value of the combined internal and external audit is maximised.
3. Attached in Appendix A is the external audit annual plan for the audit of the 2024/25 Statement of Accounts which is due to commence in June 2025.
4. The appendix shares the audit approach, the focus of external audit work and the preparation work requirements. The audit risks have been identified as:
 - a. Management override of controls – Appendix A page 14
 - b. Valuation of land and buildings – Appendix A page 15
 - c. Valuation of investment properties – Appendix A page 15
 - d. Valuation of pension fund net asset/liability – Appendix A page 16
5. Planning materiality has been determined at £10 million for the council, being 2% of 2023/24 gross operating costs from the Statement of Accounts. Errors and omissions above the materiality level of £10 million will be reported in the Audit Findings Report. Clearly trivial has been set at £0.5 million, which is 5% of materiality, below which uncorrected omissions of misstatements are not reported by external audit.
6. The revised approach to value for money external audit work has been in place since 2021/22. The National Audit Office (NAO) requires auditors to structure their commentary on value for money arrangements under the following three specified reporting criteria:-
 - Financial sustainability – risks that the council cannot effectively plan and manage its resources to meet financial pressures; and
 - Governance – a risk that the council has not made informed decisions and is not effectively managing its risks; and
 - Improving economy, efficiency and effectiveness – there is a risk that the council is not using its cost and performance data to improve the way it manages and delivers services.
7. The work that the external auditor will complete on the value for money arrangements is detailed on pages 30-34 of Appendix A.
8. The committee is asked to consider whether there are any comments it would like to make with reference to the external audit plan. Progress against the plan will be reported at future committee meetings.

Community impact

9. One of the principles in the council's Code of Corporate Governance is to implement good practices in transparency, reporting and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Environmental Impact

10. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
11. Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy.

Equality duty

12. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
13. The mandatory equality impact screening checklist has been completed for this activity and it has been found to have no impact for equality.

Resource implications

14. The external audit plan in Appendix A highlights the proposed cost of the 2024/25 audit of £391,322 being the scale fee (prior year actual fee £388,039).

Legal implications

15. The Accounts and Audit Regulations 2015 (as amended) require the council to produce and publish an annual Statement of Accounts in accordance with these regulations and "proper practice".
16. Section 21 of the Local Government Act 2003 defines "proper practice" for this purpose to be the Chartered Institute of Public Finance and Accountability (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year. The Code specified the principles, practices, format and content required in the preparation of the Statement of Accounts.

Risk management

17. The committee are invited to consider whether there are any additional risk areas that should inform the external audit plan.

Consultees

18. None.

Appendices

Appendix A – External audit plan 2024/25.

Background papers

None identified.

Report Reviewers Used for appraising this report:

Please note this section must be completed before the report can be published		
Governance	Jen Preece	Date 17/03/2025
Finance	Wendy Pickering	Date 17/03/2025
Legal	n/a	Date Click or tap to enter a date.
Communications	Luenne Featherstone	Date 14/03/2025
Equality Duty	Harriet Yellin	Date 14/03/2025
Procurement	n/a	Date Click or tap to enter a date.
Risk	Paige McInerney	Date 14/03/2025
Approved by	Rachael Sanders	Date 16/03/2025

Audit Plan for Herefordshire Council

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For the year ending 31 March 2025

14 March 2025



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01 Key developments impacting our audit approach

Local Government Reorganisation

External factors

English Devolution White Paper

On 16 December 2024, the Secretary of State for Housing, Communities and Local Government, Angela Rayner, Presented to Parliament the English Devolution White Paper.

The White Paper sets out the direction of travel for the devolution of power across England. Devolution is seen by the government as being fundamental in achieving the change the public expect and deserve. The government's aim is for devolution to promote growth, a joined-up delivery of public services, and politics being done with communities, not to them. England is one of the most centralised countries in the developed world. The goal is universal coverage of strategic authorities in England.

Strategic authorities will be a combination of pre-existing Combined Authorities and Mayoral Strategic Authorities (MSAs). They will be funded through an integrated settlement which can be used by the Authority across housing, regeneration, local growth, local transport, retrofit, skills and employment support. This removes the complexity of numerous grants, conditions and reporting requirements, simplifying it into a single mutually agreed outcomes framework monitored over a supply review period. In combination with this Mayors will be given more control over the devolution of transport, skills & employment support, housing and planning, environment and climate change, supporting business and research, reforming and joining up public services.

The government plans to facilitate a programme of local government reorganisation for 2-tier areas across England. It will also facilitate the reorganisation of unitary councils where there is evidence of failure, or where their size and/or boundaries are a hinderance to local decision making. This will be done in a phased approach and for most will mean creating councils serving a population of 500,000 or more. Along with devolution government wants to reset its relationship with local government, end micro-management and enable local governments through multi-year settlements.

The next steps are:

- A widening and deepening of devolution, expanding on the 2 new Mayors and 6 non-mayoral devolutions already noted in the white paper, with a priority programme for those with plans ready for action;
- An invitation from all remaining 2-tier areas and unitary councils where appropriate, to submit proposals for local reorganisation;
- And re-committing to the English Devolution Bill by putting the devolution framework into statute and moving to a systematic approach that ensures local leaders have the powers they need.

Update

Jim McMahon, Minister for Local Government and English Devolution, wrote to two-tier authorities in February 2025 to set out a timetable for reorganisation proposals to be submitted. We are expecting an interim plan by 21 March 2025 and a full proposal by 28 November 2025.

Local Audit Reform

External factors

Proposals for an overhaul of the local audit system

On 18 December 2024, the Minister of State for Local Government and English Devolution, Jim McMahon OBE, wrote to local authority leaders and local audit firms to announce the launch of a strategy to overhaul the local audit system in England. The proposals were also laid in Parliament via a Written Ministerial Statement.

The government’s strategy paper sets out its intention to streamline and simplify the local audit system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. A new Local Audit Office will be established, with responsibilities for:

- Coordinating the system – including leading the local audit system and championing auditors’ statutory reporting powers;
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- Setting the Code of Audit Practice;
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Minister also advised that, building on the recommendations of Redmond, Kingman and others, the government will ensure the core underpinnings of the local audit system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system;
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- enhancing capacity and capability in the sector;
- strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

Our Response

Grant Thornton welcomes the proposals, which we believe are much needed, and are essential to restore trust and credibility to the sector. For our part, we are proud to have signed 83% of our 2022/23 local government audit opinions without having to apply the local authority backstop. This compares with an average of less than 30% sign off for other firms in the market. We will be keen to work with the Ministry of Housing, Communities and Local Government (MHCLG), with existing sector leaders and with the Local Audit Office as it is established to support a smooth transition to the new arrangements.

Key development impacting our audit approach (1)

National position

Local governments face many challenges, the pandemic along with the cost of living crisis has left local governments with economic, social, and health challenges to address:

Staffing: A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

Climate change: As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local authority pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

Housing crisis: The shortage of affordable housing continues to be an issue. There aren't enough social rented homes to meet demand and it's difficult to find land for new housing developments. New requirements around net zero and other environmental considerations make it more complex to get planning permission. Local authorities therefore face the challenge of providing adequate housing while balancing environmental sustainability and statutory planning requirements.

Funding: Local governments face many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, enforce taxes, and prevent tax evasion. Social care costs, maintaining aging infrastructure, SEND and homelessness are driving up council spending and cuts to discretionary services impact local communities. Strained budgets are making it challenging to fund essential services, infrastructure projects and the ongoing stream of section 114 notices will not come as a surprise this year.

Digital Transformation: The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

Cybersecurity: Local government needs to protect against malware and ransomware attacks. They also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. The clearest evidence of this is that councils' service spending is increasingly focused on adult and children's social care, SEND and homelessness. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as housing, economic growth, and climate change

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our value for money audit work continues to identify significant weaknesses in all criteria of the Code of Audit Practice. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Authority bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

Key development impacting our audit approach (2)

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Local context	Our response
<p>New accounting standards and reporting developments</p> <ul style="list-style-type: none">local authorities will need to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on the next slide.The FRC issued revisions to ISA (UK) 600 ‘Audits of group financial statements (including the work of component auditors)’. The revised standard includes new and revised requirements that better aligns the standard with recently revised standards such as ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019). The new and revised requirements strengthen the auditor’s responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditor, and documentation. The changes are to keep the standard fit for purpose in a wide range of circumstances and the developing environment.	<ul style="list-style-type: none">Detailed review of the authority's implementation of IFRS 16. More information can be found on the next slide.Enhanced procedures in respect of audits of group financial statements

Our commitments

As a firm, we are absolutely committed to audit quality and financial reporting in local government. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Director of Finance.

To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. Please confirm in writing if this is acceptable to you, and that your staff will make themselves available to our audit team.

We would like to offer a formal meeting with the Chief Executive twice a year, and with the Director of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.

At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.

Our Value for Money work will continue to consider the arrangements in place for you to secure economy, efficiency and effectiveness in the use of your resources.

We will continue to provide you and your Audit and Governance Committee with sector updates providing our insight on issues from a range of sources via our Audit and Governance Committee updates.

We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

IFRS 16 Leases

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17.



Summary

IFRS 16 Leases is now mandatory for all Local Government (LG) 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.

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 all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major change from the requirements of IAS 17 in respect of operating leases.

There are however the following exceptions:

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

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). However, if an LG body is an intermediary lessor, there is a change in that the judgement, as to whether the lease out is an operating or finance lease, is made with reference to the right of use asset rather than the underlying asset. The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

Systems and processes

We believe that most LG Bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate

Planning enquiries

As part of our planning risk assessment procedures, we have made inquiries of management and of those charged with governance through the Audit and Governance Committee Chair.

The Backstop

Local Government National Context – 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 2023 and earlier by 13 December 2024; and
- for years ended 31 March 2024 by 28 February 2025; and
- for years ended 31 March 2025 by 27 February 2026.

23 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.

Local Government National Context – Local Audit Position

Herefordshire Council's audited annual statements for the year ended 31 March 2024 were issued on 30 September; well in advance of the backstop deadline.

We do not anticipate any issues with delivering the audit for the year ending 31 March 2025 by the 28 February 2025 deadline.



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02 Introduction and headlines

Introduction and headlines (1)

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Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Herefordshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Herefordshire Council. We draw your attention to these documents.

Scope of our Audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's and Group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Introduction and headlines (1)

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Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of land and buildings
- Valuation of Investment Properties
- Valuation of the pension fund net asset / liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council prepare group financial statements that consolidate the financial information of the Council and Hoople Limited, a subsidiary of the Council.

Materiality

We have determined planning materiality to be £10.000 million (PY £7.600 million) for the Council, which equates to 2.0% of your prior year gross operating costs for the year (PY 1.5%). We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial has been set at £0.500 million (PY £0.400 million). A separate specific materiality of £10,000 has been set for the senior officer’s remuneration disclosure.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified risks in the following value for money areas:

- Financial sustainability
- Improving economy, efficiency and effectiveness

For more details of the risks identified please refer to pages 33-34.

Audit logistics

Our interim visit will take place in April and our final visit will take place from June – September. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor’s Report and Auditor’s Annual Report.

Our proposed fee for the audit is £391,322 (PY: £388,039) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council’s Ethical Standard (revised 2024) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

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03 Identified risks

Significant risks identified (1)

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


Significant risk	Risk relates to	Audit team’s assessment	Planned audit procedures
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	<ul style="list-style-type: none">• Review of accounting estimates, judgements and decisions made by management• Testing of journals entries• Review of unusual significant transactions

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“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).



Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

Significant risks identified (2)

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Significant risk	Risk relates to	Audit team’s assessment	Planned audit procedures
Valuation of land and buildings	The significant value of land and buildings and the sensitivity to changes in assumptions.	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, where a rolling programme is being used, management need to ensure that the carrying value of those assets in the Council financial statements is not materially different from the current value at the financial statements date.</p> <p>We have identified the valuation of land and buildings, particularly revaluation and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, in particular the key assumptions that underpin the valuations.</p>	<ul style="list-style-type: none">• Evaluate 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.• Evaluate the competence, capabilities and objectivity of the valuation expert.• Evaluate 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.• Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding.• Test a sample of asset valuations to ensure that the correct accounting treatment has been applied and correctly reflected in the financial statements.• Engage a valuation expert to review the valuation instructions sent to the Council’s valuer and the valuation report received.• For land and buildings valuations; Evaluate 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.
Valuation of investment properties	The significant value of investment properties and the sensitivity to changes in assumptions.	<p>The Council revalues its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value as at year end date. The valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have identified the appropriateness of the assumptions and source data that underpin the valuation of investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	

Significant risks identified (3)

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Significant risk	Risk relates to	Audit team’s assessment	Planned audit procedures
Valuation of the pension fund net asset / liability	<p>The Council participates in a Local Government pension scheme administered by Worcestershire County Council. The scheme is a defined benefit pension scheme and, in accordance with IAS 19: Pensions, the Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position.</p> <p>The Council’s actuary provides an annual IAS 19 actuarial valuation of Council’s net liabilities in the pension scheme. There are several assumptions contained within the valuation, including: discount rate; future return on scheme assets, mortality rates etc.</p>	<p>Given the material value of the scheme’s gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability could be materially misstated. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the Council.</p>	<ul style="list-style-type: none">• Evaluate 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.• Evaluate 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).• Evaluate the data used by management’s experts in the calculation of the estimates.• Consider the impact of IFRIC 14 and evaluate its application;• Perform substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations.• Assess the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council’s financial statements.

Significant risks identified (4)

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Significant risk	Risk relates to	Audit team’s assessment	Planned audit procedures
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue	We have identified and completed a risk assessment of all revenue streams for the Group. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the revenue streams both individually and collectively.	Where the risk has been rebutted, we do not consider this to be a significant risk for the Group and standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.
The expenditure cycle includes fraudulent transactions (rebutted)	Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. 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.	We have identified and completed a risk assessment of all expenditure streams for the Group. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the expenditure streams both individually and collectively.	Where we do not consider this to be a significant risk for the Group and standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- 40 • We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

04 Group audit

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Group audit scope and risk assessment

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.

Component	Risk of material misstatement to the group	Planned audit approach and level of response required under ISA (UK) 600 Revised	Response performed by	Risks identified	Auditor
Herefordshire Council	Yes	Audit of the entire financial information of the component	Group auditor	<ul style="list-style-type: none">• Management override of controls• Valuation of land and buildings• Valuation of investment properties• Valuation of the pension fund net asset / liability	Grant Thornton UK LLP
Hoople Limited	Yes	Specific audit procedures	Group auditor	No specific risks identified	Hoople Limited is audited by Wiliamson & Croft Audit Limited. However, only a limited number of balances are of significance to the group audit, therefore audit procedures over these balances will be performed by the group auditor, Grant Thornton UK LLP, and no reliance will be places on the work of Williamson & Croft Audit Limited.

Fraud and litigation

We have not been made aware of any actual or attempted frauds in the year during our planning procedures performed to date. Should any factors arise in relation to fraud risk or actual or attempted fraud we ask that you inform us of this at the earliest possible opportunity.


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05 Our approach to materiality

Our approach to materiality (1)

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

Matter	Description	Planned audit procedures
01	Determination We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council and Group, including consideration of factors such as stakeholder expectations, industry developments, financial stability and reporting requirements for the financial statements	<ul style="list-style-type: none">• We determine planning materiality in order to:<ul style="list-style-type: none">– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements– assist in establishing the scope of our audit engagement and audit tests– determine sample sizes and– assist in evaluating the effect of known and likely misstatements in the financial statements
02	Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements	<ul style="list-style-type: none">• An item may be considered to be material by nature when it relates to:<ul style="list-style-type: none">– instances where greater precision is required
03	Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process	<ul style="list-style-type: none">• We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality
04	Matters we will report to the Audit Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	<ul style="list-style-type: none">• We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.• In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £500,000 (PY £400,000).• If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

Our approach to materiality (2)

	Group (£)	Council (£)	Qualitative factors considered
Materiality (M), performance materiality (PM) and triviality (T) for the group and council’s financial statements	M: £10,300,000 PM: £7,725,000 T: £515,000	M: £10,000,000 PM: £7,500,000 T: £500,000	In the planning phase, we established materiality at approximately 2.00% of the gross cost of sales for the 2023/24 financial year, considering factors such as ownership concentration, debt arrangements, the business environment, and the control environment.
Senior officer’s remuneration disclosures	M: £10,000	M: £10,000	We will apply a lower materiality threshold of £10,000 on review of the senior officer’s remuneration disclosures to ensure that our audit strategy contemplates the public interest vested in the sensitive and influential information stated as part of this report. It is therefore appropriate for this lower level to be applied to ensure greater precision in this area of the accounts.



06 Progress against prior year audit recommendations

Progress against prior year audit recommendations (1)

We identified the following issues in our 2023/24 audit of the Council’s financial statements, which resulted in 5 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations below.

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Status	Issue and risk	Recommendation and management update
Ongoing – we will review the impact on our audit again for 2024/25.	<p>Issue</p> <p>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. 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. 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>Risk</p> <p>Not having robust controls around the approval of journals presents a number of risks:</p> <ol style="list-style-type: none">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.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.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.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.	<p>We recommend 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>Management response</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.</p>

Progress against prior year audit recommendations (2)

We identified the following issues in our 2023/24 audit of the Council’s financial statements, which resulted in 5 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations below.

Status	Issue and risk		Recommendation and management update
Ongoing - we will review the improved controls as part of our 2024/25 audit.	Issue	For journals posted throughout the year which fall above the £2 million/£250,000 authorisation limited, 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.	Management response 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.
	Risk	There is a risk that the expected review and approval of journals is not taking place in practice. Please see page 30 for a discussion of the risks associated with a lack of robust journals approval processes.	
Closed	Issue	We identified journals which had been posted by users who are not currently associated with the Council, and in 1 example the user has not been employed by the Council since 2012. We have been informed that the issue arises from these user accounts being associated with system interface journals from the debtor and cash systems and these cannot be easily updated. We have verified that the journals posted by these users do align with the explanation provided. Management have assured us that the issue is being investigated by Council’s IT team for resolution.	Management response This was an isolated issue linked to the system set up and has been resolved within Business World. There are appropriate controls in place to ensure that system access for leavers is removed as part of the leaving process.
	Risk	There is a risk that old and out-of-date user accounts which are associated with employees who have since left the employment of the Council could be used to post inappropriate journals whether through error or fraud. These journals could also circumvent the journals approval process. Please see page 30 for a discussion of the risks associated with a lack of robust journals approval processes.	

Progress against prior year audit recommendations (3)

We identified the following issues in our 2023/24 audit of the Council’s financial statements, which resulted in 5 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations below.

Status		Issue and risk	Recommendation and management update
49	Ongoing – we will review this as part of our 2024/25 audit.	<p>Issue</p> <p>From our testing, we have identified several instances of the accruals concept not being appropriately applied.</p> <p>We note that this was identified as an issue in the prior year also, and a recommendation was made.</p> <p>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>Risk</p> <p>Not consistently applying the accruals concept presents a number of risks:</p> <ul style="list-style-type: none">– 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.– 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.– Without the accruals concept, the valuation of assets, liabilities, and equity can be distorted, impacting the organisation’s overall financial position and performance measures.	<p>We recommend 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>Management response</p> <p>At each year end accruals are processed to ensure that income and expenditure is accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates may be included using judgement and reasonable expectations of value. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate recording.</p>
		<p>Issue</p> <p>We identified that incorrect floor area data had been used in the valuation of the property, plant an 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>Risk</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 recommend that management reviews the floor area data shared with the valuer to ensure it is accurate.</p> <p>Management response</p> <p>We will continue to review the floor area evidence to provide assurance over data integrity.</p>

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07 IT audit strategy

IT audit strategy



In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Unit 4 (Business World)	General ledger and payroll	We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.

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08 Value for money arrangements

Value for money arrangements

Approach to Value for Money (VFM) work for the period ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

53



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.



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.



Risks of significant VFM weakness



As part of our initial planning work, we considered whether there were any risks of significant weakness in the body’s arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed on the table overleaf along with the further procedures we will perform. We will continue to review the body’s arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

Risks of significant weakness in VFM arrangements

Initial risk assessment of the Council’s VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor’s work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan, and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2024/25. We will continue to evaluate risks of significant weakness and if further risks are identified , we will report these to those charged with governance. We set out our reported assessment below:

Criteria		2023/24 Auditor judgement on arrangements	2024/25 risk assessment	2024/25 risk-based procedures
55	Financial sustainability	A	<p>No significant weaknesses in arrangements identified, but improvement recommendations made.</p> <p>The Quarter Three finance report to March Cabinet states "The forecast 2024/25 outturn shows a net overspend of £7.0 million at Quarter 3, before further management action estimated at £5.9 million to reduce the forecast overspend to £1.1 million." And "This review confirms delivery of £10.2 million (52%) of the total savings target for 2024/25 at Quarter 3. A further £1.1 million are expected to be delivered by 31 March 2025 to bring the total savings delivered in year to £11.3 million (58% of the full year target)." The level of savings "at risk", particularly those in Directorates, is driving the unplanned deficit and necessitating further corrective action. Not having appropriately developed savings schemes to support the budget represents a risk of significant weakness.</p> <p>We also noted that the Medium Term Financial Strategy (MTFS) 2025/26 to 2028/29 taken to February 2025 Cabinet states that the cumulative (total) budget gap over this period is £4.2m. This is comprised a £1.76m surplus in 2026/27; £0.95m deficit in 2027/28 and a £5.00m deficit in 2028/29. The projection is therefore worsening each year. This forms part of the risk of significant weakness.</p>	<p>To address this risk we will test the robustness of key savings scheme, focusing on identification, development and delivery.</p>
			<p>The Quarter Two finance report notes that the brought forward Dedicated Schools Grant (DSG) deficit at 1 April 2024 was £6.1m, but is forecast to overspend by £7.6m in year and be a cumulative £13.7m by 31 March 2025. The Quarter Three report indicates that the forecast overspend for the year is now £11.1m, so significantly worse than at Quarter Two. The statutory override is due to end on 31 March 2026. This represents a risk of significant weakness.</p>	<p>To address this risk we will follow up on progress on our prior year improvement recommendation that "the Council needs to work with schools and other stakeholders and partners to ensure that expenditure is reduced" and obtain an update on Council plans to stabilise the deficit.</p>

Risks of significant weakness in VFM arrangements

		Criteria	2023/24 Auditor judgement on arrangements	2024/25 risk assessment	2024/25 risk-based procedures
56		Governance	A No significant weaknesses in arrangements identified, but improvement recommendations remain from prior years.	No risks of significant weakness identified.	We will undertake appropriate work to address the Code of Audit Practice requirements.
		Improving economy, efficiency and effectiveness	R One significant weakness raised in relation to the Council's continued progress in Children's Social Care Services towards removal of Ofsted's "Inadequate" rating.	In our prior year report, we raised one Key Recommendation that the Council should continue to work with the Department for Education to improve its Children's Social Care Services. This remains a risk of significant weakness for 2024/25.	The significant weakness we raised in our prior year report, and in 2021/22 and 2022/23, constitutes a risk of significant weakness in 2024/25. To address this risk, we will review progress made against our recommendation and improvements made to Children's Social Care Services generally.

We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor’s annual report. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. We report our value for money work in our Auditor's Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor’s Report and included within our audit opinion.

- G

No significant weaknesses in arrangements identified or improvement recommendation made.
- A

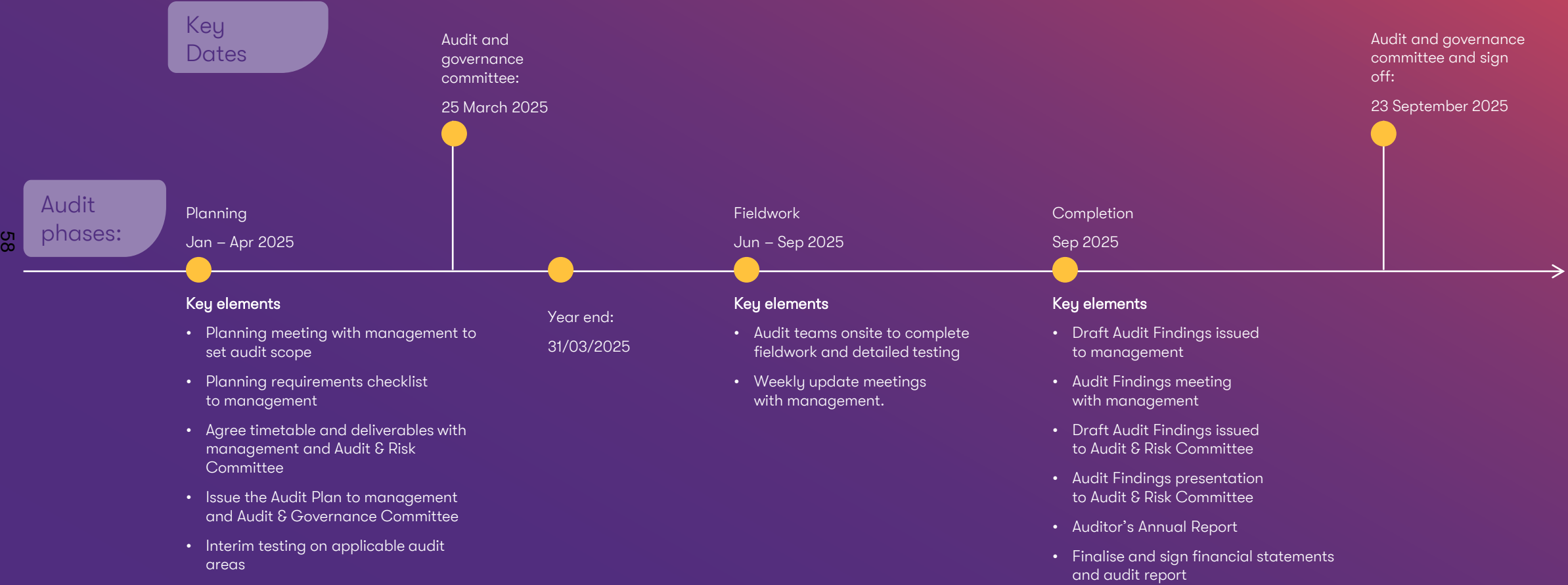
No significant weaknesses in arrangements identified, but improvement recommendations made.
- R

Significant weaknesses in arrangements identified and key recommendations made.

09 Logistics

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Logistics



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

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.

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10 Fees and related matters

Fees and related matters

Our estimate of the audit fees is set out in the table across, along with the fees billed in the prior year

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC’s [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audit for Herefordshire Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2024/25 audit is £391,322.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Entity	Audit fee for 2023/24 (£)	Proposed fee for 2024/25 (£)
Herefordshire Council – scale fee	£388,039	391,322

Our fee estimate

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the valuation of land, buildings and investment properties, and the valuation of the net pension liability/asset.

The fee is subject to review should significant new financial reporting matters arise that require additional time and/or specialist input.

Previous year

In 2023/24 the scale fee set by PSAA was £344,289. The actual fee charged for the audit was £388,039.

11 Independence considerations

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Independence considerations

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, we disclose that there are no matters that we are required to report.

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. We can confirm that 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.

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

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council/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 Council/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 Council/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 Council/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 Council/Group's board, 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 at planning 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

The following tables below sets out the non-audit services charged from the beginning of the financial year to the date of this report, 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.

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Non-audit fees for other services		Anticipated final fee	Threats	Safeguards
Audit related fees:				
Certification of housing benefits subsidy claim – 2020/21 *	£51,823	Self-interest (because this is a recurring fee) Self-review (because Grant Thornton provides audit services) 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 in comparison to the total fee for the audit of £391,322 and, in particular, relative to Grant Thornton UK LLP’s overall turnover. Further, it is a fixed fee and there is no contingent element. These factors all mitigate the perceived risks to an acceptable level.	
Certification of housing benefits subsidy claim – 2021/22 *	£28,698			
Certification of teachers’ pension claim – 2022/23	£10,000			
Certification of teachers’ pension claim – 2023/24	£12,500			
Total non-audit fees (excluding VAT)		£103,021		

Total audit and non-audit fee	
Audit fee: £391,322	Non-audit fee: £103,021

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

12 Communication of audit matters with those charged with governance

Communication of audit matters with those charged with governance

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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

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.

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 and Key Audit Matters	●	
Planned use of internal audit	●	
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, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	●	●
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		●
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		●

67 13 Delivering audit quality

Delivering audit quality

Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

Working with premium clients

We work with great public sector clients that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of journals

The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

Oversight and control

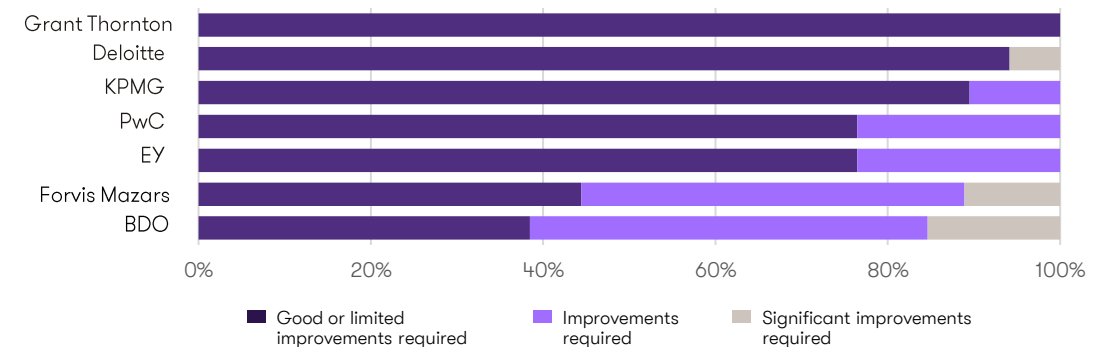
Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing clients where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell
Partner, UK Head of Audit



FRC's Audit Quality Inspection and Supervision Inspection
(% of files awarded in each grading, in the most recent report for each firm)



14 Appendices

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IFRS reporters New or revised accounting standards that are in effect

First time adoption of IFRS 16

Lease liability in a sale and leaseback

- IFRS 16 was implemented by LG bodies from 1 April 2024, with early adoption possible from 1 April 2022. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. 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.
- This year will be the first year IFRS 16 is adopted fully within Local Government.

IAS 1 amendments

Non-current liabilities with covenants

- These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

Amendment to IAS 7 and IFRS 7

Supplier finance arrangements

- These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

IFRS reporters Future financial reporting changes

IFRS reporters future financial reporting changes

These changes will apply to local government once adopted by the Code of practice on local authority accounting (the Code).

Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are expected to be adopted by the Code from **1 April 2025**.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the Code **in future years**.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is expected to be adopted by the Code **in future years**.

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal.
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 is expected to be adopted by the CIPFA Code **in future years**.

The Grant Thornton Digital Audit – Inflo

A suite of tools utilised throughout the audit process

01 Collaborate

Information requests are uploaded by the engagement team and directed to the right member of your team, giving a clear place for files and comments to be uploaded and viewed by all parties.

What you'll see

- Individual requests for all information required during the audit
- Details regarding who is responsible, what the deadline is, and a description of what is required
- Graphs and charts to give a clear overview of the status of requests on the engagement

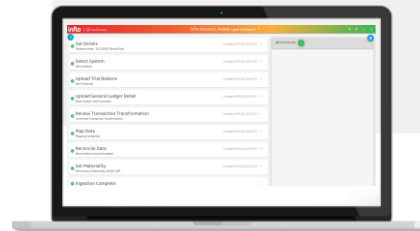


02 Ingest

The general ledger and trial balance are uploaded from the finance system directly into Inflo. This enables samples, analytical procedures, and advance data analytics techniques to be performed on the information directly from your accounting records.

What you'll see

- A step by step guide regarding what information to upload
- Tailored instructions to ensure the steps follow your finance system

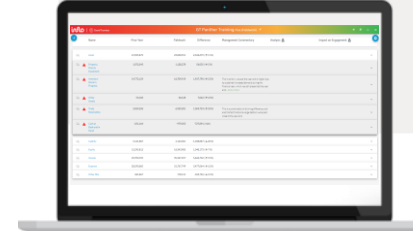


03 Detect

Journals interrogation software which puts every transaction in the general ledger through a series of automated tests. From this, transactions are selected which display several potential unusual or higher risk characteristics.

What you'll see

- Journals samples selected based on the specific characteristics of your business
- A focussed approach to journals testing, seeking to only test and analyse transactions where there is the potential for risk or misstatement





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Title of report: Internal Audit Update Report Quarter 4 2024/25

Meeting: Audit and Governance Committee

Meeting date: Tuesday 25 March 2025

Report by: Director of Finance/Head of Internal Audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored through acceptance of agreed management actions and progress updates in implementing the action plans. In addition, occasions where audit actions not accepted by management are documented if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Recommendation(s)

That the Committee:

- a) **reviews the areas of activity and concern to be satisfied that necessary improvements are outlined and delivered; and**
- b) **notes the report and consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary.**

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.

Key considerations

2. The Committee should consider the report to gain assurance that, from the work undertaken by internal audit, the Council have a robust internal control environment that effectively manages risk.
3. The internal audit progress report is attached at Appendix A.

Community impact

4. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet priorities outlined in The Herefordshire Council Plan 2024-2028.

Environmental Impact

5. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
6. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

7. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
8. The mandatory equality impact screening checklist has been completed for this activity and it has been found to have no impact for equality.

Resource implications

9. There are no specific resource implications from the report itself.

Legal implications

10. There are no specific legal implications arising from this report itself.

Risk management

11. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of the programme of internal audit work, and subsequent coverage assessments.
12. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is now reported to this committee as part of the internal audit progress reports.

Consultees

13. None.

Appendices

Appendix A SWAP Internal Audit Progress Report Quarter 4 2024-25

Background papers

None identified.

Title of report: Internal Audit Planning Paper 2025/26

Meeting: Audit and Governance Committee

Meeting date: Tuesday 25 March 2025

Report by: Director of Finance / Head of Internal Audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To present the approach to Internal Audit Planning and the Internal Audit Charter for 2025-26 to the Audit and Governance Committee for discussion and approval.

Recommendation(s)

That the Committee:

- a) approves the rolling audit plan approach; and
- b) approves the Audit Charter.

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.
2. The Audit Charter is not approved, however as this is part of the agreement between SWAP and Herefordshire Council this would be a breach of this agreement.

Key considerations

3. Internal Audit services are provided by SWAP Internal Audit Services (SWAP). SWAP's Internal Audit Planning Paper attached at Appendix A introduces and outlines the concept of a rolling plan approach, a continuation from the approach used in 2024-25.

4. There is a general recognition within the internal audit profession that to be most effective, audit teams need to be responsive and adaptive, with the ability to reprioritise and shift focus at speed. As a result, it is important that SWAP adopts a flexible and responsive approach to audit planning, ensuring that we are supporting the Council by collaboratively aligning our work to its aims, objectives, and emerging risks.
5. A traditional annual audit plan is subject to a high degree of uncertainty and change, and quickly becomes out of date and of less value as the year progresses. This year we are proposing to continue to build our plan in conjunction with management and Members as the year progresses; continuously re-assessing risks, priorities, and where we can add most value. This will be supported by a live, and continuously rolling, audit plan accessible to all relevant officers and members, through our audit management system AuditBoard.
6. Quarterly update reports will continue to be presented to the committee. It will be through this process and regular access to the rolling audit plan via AuditBoard that management and the Audit & Governance Committee will be able to assess whether the audit work building throughout the year provides sufficient and appropriate coverage of key risks.
7. The overall objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.
8. The outcomes of the reviews are designed to provide senior management and the Audit and Governance Committee with assurance on the adequacy of control and management of key risks faced by the council.
9. The Internal Audit Charter is included at Appendix B. The [Global Internal Audit Standards™](#) require the use of an internal audit charter, defined as “a formal document that includes the internal audit function’s mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.”

Community impact

10. The council’s code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet priorities outlined in The Herefordshire Council Plan 2024-2028.

Environmental Impact

11. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire’s outstanding natural environment.
12. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council’s Environmental Policy.

Equality duty

13. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
14. The mandatory equality impact screening checklist has been completed for this activity and it has been found to have no impact for equality.

Resource implications

15. None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

16. In accordance with section 5 of the Accounts and Audit (England) Regulations 2015, the council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.
17. The council is under a duty to make adequate arrangements for its internal audit functions and has chosen to appoint an external partner to assist with the discharge of this function.

Risk management

18. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of progress against the rolling internal audit plan.
19. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every quarter by SWAP Internal Audit Services.

Consultees

20. None.

Appendices

Appendix A – SWAP Internal Audit Planning Paper 2025-26
Appendix B – Audit Charter

Background papers

None identified.

In partnership with



Appendix A

Herefordshire Council

Approach to Internal Audit Planning 2025-26

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Internal Audit Planning 2025-26: Summary & Approach

The work of Internal Audit should align strategically with the aims and objectives of the Council, considering key risks, operations, and changes. To do this Internal Audit needs to be flexible in adapting its audit plan to handle rapidly changing risks, priorities, and challenges.

It is the responsibility of the Corporate Leadership Team, and the Audit & Governance Committee to ensure that the audit work proposed and completed throughout the year contains sufficient and appropriate coverage of key risks.

Our approach to internal audit planning throughout 2025-26 will be a continuous risk assessment and a rolling plan approach.

Approach to Internal Audit Planning 2025-26

The fast paced and changing environments in which local authorities now work requires us to be able to adapt, re-prioritise and shift focus. Whilst traditionally internal audit functions have delivered annual audit plans, the need for flexibility in an ever-changing landscape has demanded a change of approach to audit planning. Our planning ensures that we are supporting the Council by collaboratively aligning our work to the Council's aims, objectives and key risks including emerging risks. This helps to ensure that we are auditing the right things, at the right time; enabling us to provide insight and value when and where it is required.

To accommodate the need for flexibility we build our plan in conjunction with management as the year progresses. We believe this approach worked well last year and has earned the support of both senior management and the audit committee. As such we propose to continue with this planning approach in 2025/26.

The resulting programme of work will be a combination of requested audit work aligned to service priorities, combined with audit work recommended by SWAP, driven by our continuous risk assessment. This risk assessment will be informed by the Council's Corporate and Directorate risk registers, as well as other key management information such as performance data. We will also provide a view on ongoing coverage against an assessment of SWAP's sector-wide top 10 risk areas and the Council's corporate risk register. The results of our risk assessments will be regularly shared with Senior Management and the committee to obtain their view on the value of internal audit involvement in identified areas. In developing risk assessments, we will also take account of other sources of assurance, where relevant.

As the year progresses, we will update the committee through our usual quarterly update report on internal audit activity. It will be through this process and regular access to the rolling audit plan via AuditBoard that management and the Audit & Governance Committee will be able to assess whether the audit work building throughout the year provides sufficient and appropriate coverage of key risks.

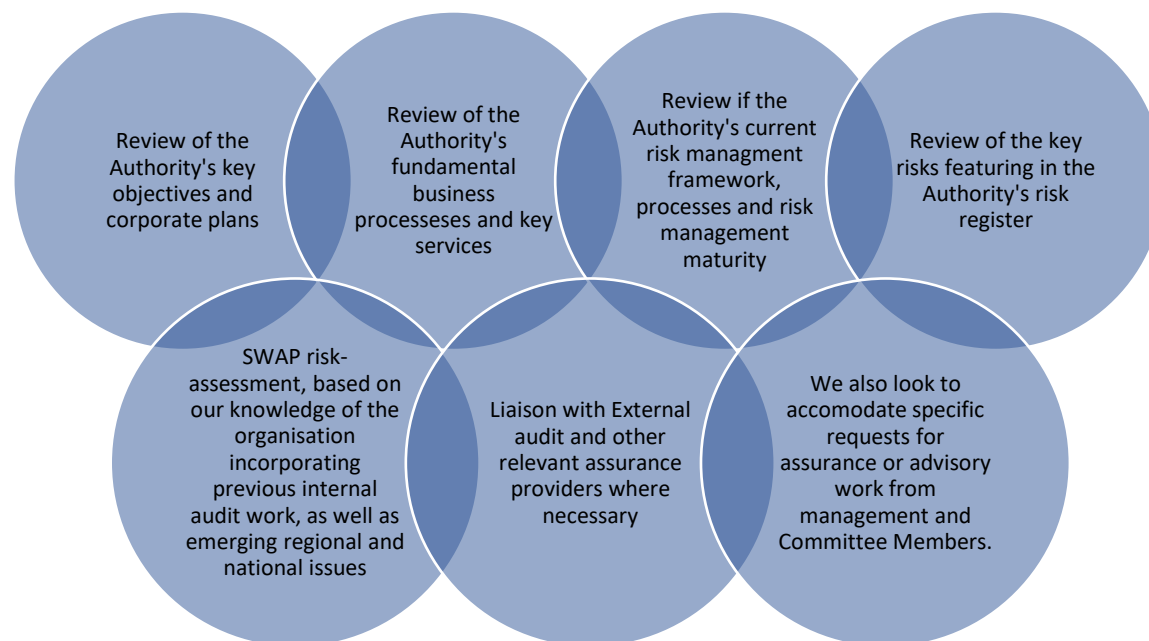
The overall objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

Internal Audit Planning 2025-26: Methodology

To develop and maintain appropriate risk-based audit work, SWAP will regularly consult with senior management, as well as reviewing key documentation, to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.

Internal Audit Planning Methodology 2025-26

The factors that will be considered when risk assessing & prioritising 2025-26 audit work have been set out below:



To supplement the above, regular meetings with Directorate Leadership Teams will be held throughout the year to discuss any emerging risks, areas of concern, or general opportunities to enhance governance, risk management or control. The results of these conversations will help to shape our rolling programme of audit work.

It should be noted that internal audit is only one source of assurance, and the outcomes of our reviews should be considered alongside other sources, as part of the 'three lines' assurance model. Key findings from our internal audit work should also be considered in conjunction with the Annual Governance Statement.

Internal Audit Planning 2025-26: Rolling Live Programme of Audit Work

We would encourage management and members to regularly review our live audit plan to assess our rolling internal audit coverage.

This will help to confirm:

- That the internal audit plan builds throughout the year to provide adequate coverage of the key risks faced by the organisation
- That sufficient assurance is being received to monitor the organisation's risk profile effectively; and
- That the areas included on the Future Proposed Audits remain appropriate, with an accurate priority and risk assessment.

A Rolling & Live Programme of Audit Work

Throughout 2024-25 we have used our live rolling planning dashboard, held on SWAP's Audit Management system AuditBoard. Senior Management and members of the Audit and Governance Committee have access to the system in order to view our rolling plan.

To access our rolling plan dashboard please click on this link <https://swap.auditboardapp.com/login>

The rolling plan dashboard provides an assessment of how our audit work is building throughout the year to enable SWAP to provide an annual opinion on the Council's governance, risk management and control environment. The continuous risk assessment and planning approach highlighted above, aims to ensure that we have a reasonable and equitable spread of work covering the Authority's key corporate risks and SWAP's sector-wide top 10 risk areas.

The rolling plan dashboard details all work we have completed across the year, and any work that is in progress along with the status of that work. Finally it details the 'Future Proposed Audits'. This is our rolling audit plan and details audit work that we plan to undertake in future, along with an assessment of the priority of that work. Through 2025-26 work will take place to include a timeframe of completion of the audit along with its risk priority.

The rolling plan has been included in the quarter 4 progress report presented to committee.

Internal Audit Planning 2025-26: SWAP Internal Audit Services

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves.

The key contacts in respect of your internal audit service for Herefordshire Council are:

Amy Probert, Assistant Director (Head of Internal Audit)

Amy.Probert@swapaudit.co.uk

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Providing access to CiFAS – the UK's leading fraud prevention service;
- Benchmarking and sharing of best-practice between our public-sector partners;
- Regular newsletters containing emerging issues of significance;
- Communication of fraud alerts received both regionally and nationally;
- A series of Member training sessions.

Your Internal Audit Service

Audit Resources

The 2025-26 internal audit programme of work will represent a resource mix and fee of £296,946. This fee includes a team of internal audit staff, including a dedicated Head of Internal Audit. The internal audit resources available will represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work.

Conflicts of Interest

We are not aware of any conflicts of interest within Herefordshire Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value, and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion, and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud, and corruption. We have dedicated counter-fraud resources available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit & Governance Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit & Governance Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Planning 2025-26: SWAP Internal Audit Services

Internal audit functions should be subject to an External Quality Assessment (EQA) at least once every five years.

An EQA, evaluates conformance with the Global Internal Audit Standards in the UK Public Sector.

The Global Internal Audit Standards are now in effect as of January 2025.

SWAP will now prepare for its next EQA against the new Global Internal Audit Standards.

External Quality Assurance

SWAP work is completed to comply with the Global Internal Audit Standards in the UK Public Sector. International Professional Practices Framework of the Institute of Internal Auditors (IPPF).

Every five years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in December 2024 which confirmed conformance with 2017 International Professional Practices Framework.

New Global Internal Audit Standards (GIAS) have just been released for the internal auditing profession – see here for further details: <https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/>.

As an organisation, SWAP will now prepare for its next External Quality Assessments over the next year. This will be done against the new Global Internal Audit Standards.



Internal Audit Charter

The Internal Audit Charter is included as an appendix to this report and following the introduction of new Global Internal Audit Standards, has been updated accordingly.

Appendix B

Internal Audit Charter for SWAP Internal Audit Services (SWAP)

Purpose

SWAP Internal Audit Services creates, protects, and sustains value by providing the audit committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight, that meets rigorous professional standards.

The internal audit function enhances:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with the Institute of Internal Auditors Global Internal Audit Standards™ which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the audit committee.
- Internal auditors are free from undue influence and committed to making objective assessments.

Commitment to Adherence to the Professional Standards

The Accounts and Audit (England) Regulations, state that: *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.”*

The internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements subject to the Application Note for UK Public Sector Internal Audit. The chief audit executive will report annually to the partner audit committee and senior

management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program, managed and monitored by the SWAP senior management team and the SWAP board.

Mandate

Authority

The audit committee grants the internal audit function the mandate to provide the audit committee and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the audit committee. Such authority allows for unrestricted access to the audit committee.

The audit committee authorises the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of the Partner and other specialised services from within or outside the Partner organisation to complete internal audit services.

Independence, Organisational Position, and Reporting Relationships

The chief audit executive will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The chief audit executive will report functionally to the audit committee and administratively (for example, day-to-day operations) to the Director of Finances (section 151 Officer). This positioning provides the authority and status to bring matters directly to senior management and escalate matters to the audit committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the audit committee, at least annually, the organisational independence of the internal audit function. If the governance structure does not support organisational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the audit committee any interference internal auditors encounter related to the scope, performance, or communication

of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the chief audit executive, audit committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganisation within the organisation.
- Significant changes in the chief audit executive, audit committee, and/or senior management.
- Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Audit Committee Oversight

To establish, maintain, and ensure that the internal audit function has sufficient authority to fulfill its duties, the audit committee will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit executive has unrestricted access to, communicates, and interacts directly with the audit committee, including in private meetings without senior management present.
- Ensure arrangements are in place to notify the chief audit executive of all suspected or detected fraud, corruption, or impropriety.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards in the UK Public Sector, which establish the foundation that enables an effective internal audit function.

- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter annually with the chief audit executive to consider changes affecting the organisation, such as the employment of a new chief audit executive / head of internal audit or changes in the type, severity, and interdependencies of risks to the organisation; and annually approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Collaborate with senior management to determine the budgets, qualifications, and competencies the organisation expects in a chief audit executive, as described in the Global Internal Audit Standards in the UK Public Sector.
- Review the chief audit executive's performance, provide feedback to the SWAP CEO, plus senior management, and the organisation's CEO.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established.
- Review of the results of the quality assurance and improvement program annually.
- Make appropriate inquiries of management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

Chief Audit Executive Roles and Responsibilities

Ethics and Professionalism

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards in the UK Public Sector, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the Partner organisation and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organisation.
- Report organisational behavior that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

Objectivity

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for the Partner organisation or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any Partner organisation's employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, audit committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function

The chief audit executive has the responsibility to:

- At least annually, submit a risk-based internal audit plan to the audit committee and senior management for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the audit committee and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Partner organisation's business, risks, operations, programs, systems, and controls.
- Communicate with the audit committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards in the UK Public Sector.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the audit committee and senior management regularly and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards in the UK Public Sector and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the Partner organisation and communicate to the audit committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to the Partner organisation's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards in the UK Public Sector. Any such conflicts will be resolved or documented and communicated to the audit committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve

an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the audit committee.

Communication with the Audit Committee and Senior Management

The chief audit executive will report at least annually to the audit committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Significant revisions to the internal audit plan.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards in the UK Public Sector and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the audit committee.
- Results of assurance and advisory services.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the Partner organisation's risk appetite.
- Clarification over the responsibility to complete a fraud risk assessment, and presentation of this where responsibility belongs to SWAP.

Quality Assurance and Improvement Program

The SWAP senior leadership team in collaboration with the chief audit executive / will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards in the UK Public Sector, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the audit committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be completed at least once every five years by a qualified, independent assessor or assessment team from outside both SWAP and the Partner Organisation; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organisation, including all the Partner organisation's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the audit committee and management on the adequacy and effectiveness of governance, risk management, and control processes for the Partner organisation.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of the Partner Organisation's strategic objectives are appropriately identified and managed.
- The actions of the Partner organisation's officers, directors, management, employees, and contractors comply with the Partner organisation's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Partner organisation.
- The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Approval/Signatures



Chief Audit Executive

10/03/2024

Date

Audit Committee Chair

Date

Chief Executive Officer (SWAP)

Date



Title of report: Statutory accounts 2024/25 progress, accounting policies and estimates

Meeting: Audit and Governance Committee

Meeting date: Tuesday 25 March 2025

Report by: Director of Finance, Chief Accountant

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To provide an update on progress made against the 2024/25 statutory accounts workplan and present the accounting policies and estimates which inform the financial statements.

Recommendation(s)

That:

- a) Arrangements for the preparation of the 2024/25 statutory accounts, including management arrangements to identify and evaluate accounting estimates, are reviewed and confirmed as satisfactory; and
- b) The accounting policies which will inform the preparation of the 2024/25 statutory accounts are approved.

Alternative options

1. There are no alternative options. The Local Audit and Accountability Act 2014 requires the council to produce a Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 (as amended).

Further information on the subject of this report is available from
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Rachael.sanders@herefordshire.gov.uk, judith.tranmer@herefordshire.gov.uk

Key considerations

2. The council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 (as amended) and the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the council and comprises: a narrative report, an annual governance statement, comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, collection fund statement, group accounts and supporting notes.

2024/25 Statutory accounts progress

3. The statutory deadline to publish the 2024/25 draft Statement of Accounts is 30 June 2025, with external audit sign-off to be completed by 27 February 2026. The council is planning to publish draft Statement of Accounts by 31 May 2025 to ensure completion prior to the planned external audit start date. The external auditors have indicated that they are planning to complete sign-off by 30 September 2025. The council's detailed closedown plan is built around these deadlines to ensure timely preparation of the financial statements and working papers to support the audit process.
4. The finance team are on target with the preparation work for the Statement of Accounts and responses to support external audit planning and initial risk assessment activity by our external auditors: Grant Thornton UK LLP.

Accounting policies 2024/25

5. Accounting policies are the specific principles, bases, conventions, rules and practices applied by the council in preparing and presenting financial statements. For 2024/25, the notes to the Statement of Accounts will include the relevant accounting policies.
6. Changes to the accounting policies from those approved for 2023/24 include those relating to the implementation of IFRS 16. This is a new accounting standard effective 1 April 2024 impacting the accounting treatment for leases/right of use assets, with an associated impact on the accounting treatment for Public Finance Initiatives (PFI). These are detailed in appendix 1.

Accounting estimates 2024/25

7. The preparation of financial statements requires the council to make judgements, estimates and assumptions which affect the value of assets and liabilities reported at the balance sheet date and amounts recognised as income and expenditure in the year.
8. The notes to the 2024/25 financial statements will disclose the material accounting estimates included in our balances and transactions, and the models and assumptions on which they are based. Disclosure requirements include whether the risk is mitigated by the use of an external specialist, e.g. an asset valuer or a pension actuary, and a sensitivity analysis to show the range of reasonably expected outcomes for the balance/transaction.
9. The council has identified material accounting estimates which inform balances and transactions for the year ending 31 March 2025 as: valuation of property, plant and equipment, depreciation and the valuation of the pension fund net asset/liability.
10. The assessment of material accounting estimates in year includes consideration of the requirement for specialised skills and knowledge from management experts, e.g. asset

valuations and investments, a review of the methods, models and assumptions used to inform the accounting estimates and consideration of the degree of estimation uncertainty relevant to each accounting estimate. This assessment is included in appendix 2.

National Context: Local Authority Reporting Delays

11. Whilst the council is up to date with published financial statements and a corresponding audit opinion for all financial reporting periods up to and including 31 March 2024, delays in publishing local government audited accounts have increased significantly in recent years and there are a significant number of local audits in England which remain outstanding.
12. The Ministry of Housing, Communities and Local Government (MHCLG) solution is a three-step process:
 - a. A reset period, where statutory backstop dates will enforce past audits to be cleared (audit teams will issue an opinion even where little to no substantive testing has been carried out);
 - b. A period of several years where assurance lost due to the backstops is rebuilt (issue relating to assurance over opening balances); and
 - c. Longer term systemic reforms to the local audit system and the financial reporting framework to prevent the backlog from recurring.
13. Whilst the recovery measures will not directly impact on the preparation of the council's statutory accounts for 2024/25 or the planned audit procedures outlined in the External Auditors Audit Plan for 2024/25, it should be noted that the requirement may present increased challenge for audit firms.
14. The External Audit Annual Plan for the year ending 31 March 2025 notes that year-end audit fieldwork will be completed between June and September 2025 with the Audit Findings Report to be presented to this committee at its meeting in September 2025. The council finance team will continue to work closely with the audit team over this period to support the prompt resolution of audit queries and timely delivery of the audit opinion for 2024/25.

Community impact

15. Publication of the Statement of Accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an overarching responsibility to service the public interest in adhering to the requirements of legislation and government policies.

Environmental Impact

16. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

17. Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy.

Equality duty

18. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
19. The mandatory equality impact screening checklist has been completed for this activity and it has been found to have no impact for equality.

Resource implications

20. There are no new resource implications from this report.

Legal implications

21. Regulation 9 of the Accounts and Audit Regulations 2015 (as amended) requires the following:
- a. The Section 151 officer to sign and date the Statement of Accounts, and confirm that they are satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year; and
 - b. A period of time to allow the public to inspect the accounts. This will commence on 1 June 2025 and last for six weeks; and
 - c. Once there has been a period of public inspection, the committee must approve the Statement of Accounts by a resolution and ensure that the Statement of Accounts are signed and dated by the person presiding at that committee.
22. This committee has been delegated the responsibility of approving the Statement of Accounts on behalf of the Council (Part 3 Section 5 para 3.5.15) in the constitution.

Risk management

23. The risks considered to be significant to production of the Statement of Accounts have been noted in the table below. All risks are considered to be sufficiently mitigated and will be managed by the finance management team.
24. The risks identified in this report have been appropriately recorded on the relevant risk register and escalated in line with the Council's Risk Management Strategy. Governance and monitoring arrangements are in place to ensure these risks are actively managed throughout the statutory accounting process.

Risk/opportunity	Mitigation
Delays in closedown and financial reporting may mean that the statutory deadline to publish draft statutory accounts is not met.	Closedown and Statement of Accounts production tasks are managed through a detailed project plan monitored by the Chief Accountant.
External auditor resource implications may mean that the audit is delayed. This may mean that the statutory deadline to publish audited accounts is not met, and that internal finance resources are committed to servicing external audit requirements for longer than anticipated.	<p>All finance staff are issued with closedown instructions and training.</p> <p>Working papers and sample evidence are provided to the auditors in line with their time and quality expectations, which leads to them continuing to prioritise our audit in phase 1 of their Local Authority audit programme.</p> <p>There is continuous communication between the audit management and the council finance management to enable any potential delays to be dealt with expediently.</p> <p>External auditors report their progress to this committee.</p>
Accounting policies that have been judged to be material to the financial statements may not be applied by all finance officers of the council.	All finance staff are issued with closedown instructions and training. The Statement of Accounts are quality checked by the Section 151 officer.
Accounting estimates utilised by finance officers of the council may not be the most appropriate, and may result in material errors in the financial statements.	<p>Accounting estimates are reviewed annually by experienced and knowledgeable finance staff. Material accounting estimates are made by external knowledge experts in accordance with their professional standards. These estimates are challenged by council finance staff.</p> <p>External audit provide assurance that accounting estimates made do not result in material misstatements in the Statement of Accounts through their audit opinion statement.</p>

Consultees

25. None

Appendices

Appendix 1 Accounting policies

Appendix 2 Accounting estimates

Background papers

None identified.

Report Reviewers Used for appraising this report:

Governance	Jen Preece	Date 11/03/2025
Finance	Wendy Pickering	Date 13/03/2025
Legal	Sean O'Connor	Date 06/03/2025
Communications	Iuene featherstone	Date 06/03/2025
Equality Duty	Harriet Yellin	Date 06/03/2025
Procurement	n/a	Date Click or tap to enter a date.
Risk	Paige McInerney	Date 12/03/2025
Approved by	Rachael Sanders	Date 16/03/2025

Appendix 1 Accounting Policies 2024/25

Accounting policies

Accounting policies included in the Statement of Accounts for 2024/25 are as listed below.

Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events after the reporting period

Events after the reporting period are those that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue.

There are two types of event;

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- Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and
- Those that relate to conditions after the reporting period, which are not adjusted in the accounts, and disclosed in the notes to the statements

Revenue recognition

Income and expenditure is accounted for in the financial year in which the activity it relates to takes place, which may not be the same year in which cash payments are made or received. Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet, subject to a de-minimis threshold of £5,000 for revenue and £10,000 for capital.

Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority. Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised at the point that the service is provided or is charged for. Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Taxation and non-specific grant income

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. As a billing authority, the difference between the non-domestic rates and council tax included in the comprehensive income and expenditure statement and the amount required by regulation credited to the general fund is taken to the collection fund adjustment account and reported in the movement in reserves statement.

Appendix 1 Accounting Policies 2024/25

Revenue relating to council tax and non-domestic rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

Grant income

Grants and contributions are recognised in the accounts when there is reasonable assurance that the council will comply with any conditions attached to them and the grants or contributions will be received.

Revenue grants are recognised in the comprehensive income and expenditure statement when any relevant conditions have been satisfied. Grant monies unspent at the end of the year are transferred to an earmarked reserve. When the grant is applied, an amount equal to the expenditure is transferred back from the earmarked reserve to the general fund. Where conditions attached to the grants or contributions have not been met, monies received to date are carried in the balance sheet as receipts in advance and credited to the comprehensive income and expenditure statement when the conditions are satisfied.

Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. Where the grant has yet to be used to finance capital expenditure, it is transferred to the capital grants unapplied reserve; where grant conditions have not been satisfied then the monies received are carried in the balance sheet as receipts in advance.

Pooled budgets

¹⁰¹ Pooled budgets exist where neither partner has sole control of the pooled fund. These arrangements meet the definition of a joint operation, where the partners have joint control over the arrangement, the rights to the arrangement's assets and obligations for the arrangement's liabilities.

Where services are primarily managed by the council, the income and expenditure is reflected within the net cost of services in the comprehensive income and expenditure statement. This also includes the council's proportion of jointly controlled pooled budgets. Where services are primarily managed by the ICB, the income and expenditure is not reflected in the council's accounts.

Termination benefits

Termination benefits are recognised in the surplus or deficit on the provision of services at the earlier of when the council can no longer withdraw an offer of benefits, or when the council recognises the costs of restructuring. Termination benefits are payable as a result of either:

- An employer's decision to terminate an employee's employment; or
- An employee's decision to accept voluntary redundancy

Property, plant and equipment

Physical assets that support the delivery of our services and have a life of more than one financial year are classified as Property, Plant and Equipment (PPE).

Expenditure on PPE is capitalised on an accrual basis in the accounts, unless it is maintenance only in which case it is charged to the Comprehensive Income and Expenditure Statement when it is incurred. Purchased assets are initially measured at cost. Non-purchased assets are measured at fair value, or at the carrying amount where there is no commercial substance (e.g. via exchange). The detailed bases for measuring assets are given below:

Appendix 1 Accounting Policies 2024/25

- Community assets and assets under construction – historical cost
- Land and buildings – current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Vehicles, plant and equipment – current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Infrastructure assets - depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England], which was deemed at that time to be historical cost

Capital expenditure that does not result in the creation of a long-term asset (Revenue Expenditure Funded from Capital under Statute, known as REFCUS) is charged as expenditure to the relevant service in the comprehensive income and expenditure statement. Where the cost of this expenditure is met from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account so that there is no impact on the level of council tax

107 Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) or that are not yet available for use (e.g. assets under construction) are not depreciated. The calculation is on a straight-line basis over the remaining useful life of the assets as estimated by the valuer (for buildings this is between 23 and 56 years). For those assets classed as vehicles, plant, furniture and equipment, useful economic lives are estimated to be 5 years, unless the individual asset life is known (e.g. the waste asset is 30 years). New assets are not subject to a depreciation charge in the year of acquisition.

Revaluations

Asset categories are revalued at least every five years on a rolling basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2021 and UK National Supplement. Further revaluations are carried out where there have been material changes.

Where increases in value are identified, the carrying amount of the asset is increased with a corresponding entry for the gain in the revaluation reserve.

Where decreases in value are identified, they are accounted for by:

- the carrying amount of the asset writing down the balance of revaluation gains for the asset in the revaluation reserve; or
- the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement where there is no, or insufficient, balance in the revaluation reserve

Upon revaluation (upwards or downwards) previously accumulated depreciation is eliminated and the asset shown at the newly revalued figure.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Appendix 1 Accounting Policies 2024/25

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Infrastructure assets

In accordance with the temporary relief offered by the update to the CIPFA code on infrastructure assets, the PPE note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. The council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

¹
∞ The council has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

School assets

Where a school is under the council's control (i.e. under the responsibility of the council's Section 151 Officer) its income, expenditure, current assets, liabilities and reserves are consolidated into the council's accounts and included within the figures disclosed in the statement of accounts. Any reserves attributable to the school are earmarked and disclosed separately. If a school transfers to academy status it is no longer under the control of the council and therefore its income, expenditure, assets, liabilities and reserves are no longer consolidated into the council's accounts.

In respect of any property, plant and equipment associated with schools, the council has determined that community schools, voluntary aided and voluntary controlled schools are included in the balance sheet. Voluntary aided schools' long term assets are owned by the school trustees however under these assets have been recognised due to the probability that the future economic benefits associated with the asset will flow to the council and the cost of the asset can be measured reliably in accordance with IAS16. The fair value of schools is included using a depreciated replacement cost valuation method which comprises the market value of the land in its existing use plus the current replacement cost of the buildings less an allowance for physical deterioration.

Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Rentals earned are recognised as income in the comprehensive income and expenditure statement on an accruals basis. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

Appendix 1 Accounting Policies 2024/25

Investment property value is measured at fair value in compliance with IFRS 13. A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions. Gains and losses on fair value adjustments are included in the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Gains or losses on disposal of an investment property are treated in the same way. Gains or losses recognised in the comprehensive income and expenditure statement are not proper charges to the general fund and are reversed out through the movement in reserves statement. For all investment properties where a fair value review is conducted, fair values are based on multiplying an estimated net income by an appropriate investment yield or having regard to the capital value of similar assets. The net income figure is based on market rent.

Minimum Revenue Provision (MRP)

Minimum Revenue Provision (MRP) is a charge to the general fund with a matching entry in the capital adjustment account. It represents an annual contribution from revenue towards the provision for the reduction in our overall borrowing requirement. MRP is charged over a period that is broadly commensurate with the period over which the council receives benefit from the asset.

The minimum revenue provision (MRP) is calculated as follows:-

- MRP on supported borrowing is written down on an annuity basis with an annuity rate of 4%
- MRP on unsupported borrowing is written down on an annuity basis with an annuity rate of 4%
- MRP on assets acquired through Right of Use asset leases and Private Finance Initiative (PFI) will be equal to the cash payments that reduce the outstanding liability each year

Cash and cash equivalents

Cash is represented by cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are deemed to be 'on-call' investments, where investments can be recalled immediately.

Private finance initiatives (PFI)

Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the property, plant and equipment used under the contracts on its balance sheet. The original recognition of these property, plant and equipment at their fair value is balanced by the recognition of a liability for amounts due to the PFI provider. Property, plant and equipment recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI contractors each year are analysed into four elements:

- Fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- Finance cost – a percentage interest charge on the outstanding balance sheet liability, debited to interest payable and similar charges in the comprehensive income and expenditure statement under financing, investment income and expenditure

Appendix 1 Accounting Policies 2024/25

- Payment towards liability – applied to write down the balance sheet liability, current and long term, towards the PFI operator
- Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the balance sheet and recognised as property, plant and equipment when the contractor incurs the expenditure

Under IFRS 16, the opening finance lease liability is remeasured at the net present value of the future rental payments where an inflationary increase has been applied to the unitary payments.

Operating leases – the council as a lessee

At the inception of a contract, the arrangement is assessed as to whether it contains a lease. It contains a lease if it conveys the right to control the use of an identified asset for a period of time. If the contract is assessed to contain a lease, then the right of use asset is capitalised on the balance sheet, with a corresponding lease liability.

The right of use asset is initially measured at cost, unless it has been acquired at substantially below market terms then it is measured at fair value. Thereafter, the right of use asset is measured according to the accounting policy for its category of property, plant and equipment.

The lease liability is initially measured at the present value of future lease payments, discounted using the incremental borrowing rate. The incremental borrowing rate is the rate that the council would have to pay to borrow the funds to purchase the asset. This is deemed to be the Public Works Loan Board rate.

110 Where a right of use asset has been measured at fair value, then the difference between that and the measurement of the lease liability is recognised initially in the surplus or deficit on provision of services and transferred to the capital adjustment account in the movement in reserves statement.

Where the lease has been classified as short term (12 months or less left) or low value (asset value under £10,000), then lease payments are charged to the comprehensive income and expenditure statement on a straight-line basis over the lease term.

IFRS 16 Leases transitional disclosures

As a practical expedient permitted under IFRS 16, the council has not reassessed whether a contract contains a lease as at 1 April 2024, except for leases at nil consideration.

IFRS 16 has been applied retrospectively to leases by recognising the cumulative effect of initial recognition as an adjustment to opening balances of reserves in the movement in reserves statement.

Operating leases – the council as a lessor

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of the asset lie with the lessor or the lessee. The council does not have any finance leases as a lessor.

For operating leases, the asset is capitalised on the balance sheet and measured according to the accounting policy for its category of property, plant and equipment. Lease income is recognised in the comprehensive income and expenditure statement on a straight-line basis over the lease term.

Appendix 1 Accounting Policies 2024/25

For sub-leases where the term extends to the end of the head lease, these have been reclassified from operating leases to finance leases under IFRS 16.

Pension schemes

Defined benefit schemes

The Local Government Pension Scheme is accounted for as a defined benefit scheme. The liabilities are included in the balance sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees. Liabilities are discounted to their value at current prices using a discount rate (based on market yields and other factors). Assets are included in the balance sheet at their fair value determined through market or bid prices or using professional valuations. The change in the net pension's liability is analysed into six components;

- Current service cost: The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the comprehensive income and expenditure statement
- Past service cost: The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the net cost of services in the comprehensive income and expenditure statement
- Net Interest on the defined benefit liability: The change during the period that arises from the passage of time is charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement
- Return on plan assets: Charged to the pensions reserve as other comprehensive income and expenditure but excludes amounts included in net interest on defined benefit liability
- Remeasurement of the net defined benefit liability: Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in other comprehensive income and expenditure
- Contributions paid to the pension fund: Cash paid as employer's contributions to the pension fund

Under IAS 19 the cost of retirement benefits is included in the cost of services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out to the pensions reserve via the movement in reserves statement.

Defined contribution schemes

Teachers employed by the council are members of the Teachers' Pension Scheme, which is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity. They are valued in line with the requirements of IFRS 13 (fair value), the recognition and measurement of financial instruments is reported in accordance with IFRS 9.

Financial assets

The council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. All of the council's financial assets

Appendix 1 Accounting Policies 2024/25

are therefore classified as amortised cost. Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited is the amount receivable for the year in the loan agreement.

The council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

Financial liabilities

A financial liability is an obligation to deliver cash (or another financial asset) to another entity. Financial liabilities are recognised on the balance sheet when the council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability multiplied by the effective interest rate for the instrument and are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The effective interest rate is the rate that discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement.

Fair value of assets and liabilities

Financial liabilities and financial assets are carried in the balance sheet at amortised cost, but fair value disclosures are required by the Code. Fair value is the price that would be received/paid in an orderly transaction between market participants at the measurement date. The fair value has been assessed by calculating the present value of the anticipated cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- The fair value of Long term debtor loans have been calculated based on discounted contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing
- For PWLB and other loans, PWLB premature repayment rates and prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures
- The fair value of liabilities under PFI schemes have been calculated based on discounted contractual cash flows of the same remaining term

There are three tier levels in measuring fair value, these are:-

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability.

Appendix 1 Accounting Policies 2024/25

Group accounting policies

In preparing group accounts, the council is required to align the accounting policies of the subsidiary with those of the council, and make consolidation adjustments if necessary. The accounting policies adopted by Hoople Ltd are considered to be consistent with the accounting policies adopted by the council, with the exception of those listed below:

Taxation

Corporation tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the statement of comprehensive income, profit and loss, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax for the prior period. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

113 A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Appendix 2 Accounting Estimates for 2024/25

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	Control activities are:- Check opening asset values to closing asset values on FAR. Check with property for any changes. Detailed work instruction to the valuers. Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation.	External valuers used are Wilks Head & Eve LLP (for assets generally) and Hilco (for Energy from Waste asset).	The uncertainty over asset values is increased due to economic uncertainty, rising inflation, and the impact this has on the interest rates. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. The disclosure in the estimation uncertainty note (note 4) considers a variation of 5% in the net book value of PPE. This gives an indication of the sensitivity of the revaluations on the balance sheet.	No change

Investment property valuations	Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	Control activities are:- Check opening asset values to closing asset values on FAR. Check with property for any changes. Detailed work instruction to the valuers. Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation.	External valuers used are Wilks Head & Eve LLP (for assets generally).	There is uncertainty over investment property values due to the impact the economic downturn has on rental income. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	No change
Depreciation	Those assets subject to external valuation are assigned a useful economic life (UEL) by the external valuers. Those assets not subject to external valuation are assigned a UEL by an officer from the council with relevant subject knowledge within expected ranges.	Control activities are:- Check of FAR net book values to prior year. Reasonableness check on UELs. Check of calculation cells Reasonableness check on overall depreciation charge. Check of assumptions used by external valuer. Engagement with colleagues in Service to confirm UELs.	External valuers used are Wilks Head & Eve LLP (for assets generally).	The uncertainty over UELs is increased due to economic uncertainty and the impact this has on the repairs and maintenance programmes. Assumptions are:- <ul style="list-style-type: none"> • There are no residual economic values to assets • There is no depreciation chargeable in the first year of the asset Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. The estimation uncertainty disclosure in the financial statements (see note 4) ascertains the estimated increase in the depreciation charge that would occur if the UELs were reduced by 1 year. This gives an indication of how sensitive the depreciation charge is to changes in UELs.	No change

Valuation of defined benefit net pension fund asset/liabilities	Methods and assumptions used are industry standard and are listed in a report issued by the actuary	Control activities are:- Check of source data to ledger. Check of source data used by the actuary to source data sent. Overview of assumptions used by the actuary. Challenge of any movements in IAS 19 figures since the prior year.	Hymans Robertson are the actuaries used to estimate the net pension asset/liability.	There is uncertainty over this estimate due to the reliance on many complex and interacting assumptions. These risks are addressed through the use of a qualified professional actuary, who uses methodologies and assumptions as recognised by The Institute and Faculty of Actuaries (IFA). The actuary supplies calculations of how changes in certain assumptions impact the net pension asset/liability on the balance sheet. These are disclosed in the estimation uncertainty disclosure (note 4).	No change
Provisions	Each provision is individually considered and calculated.	Control activities are:- Review of provisions balance to prior year. Review of insurance/legal/property registers for potential areas of provision. Review of provision calculation working papers for evidence and reasonableness.	No	Provisions (excluding impairment allowances) are not a material balance on the balance sheet and are therefore unlikely to result in a material misstatement due to estimation uncertainty.	No change

Loans	Methods used by MUFG Corporate Markets are included in their portfolio valuation	Control activities are:- Check of ledger balances to loan agreements. Check of ledger balances to portfolio valuation. Reasonableness check on assumptions used. Comparison of balances and fair values to the prior year.	Treasury Management advisors (MUFG Corporate Markets) provide a portfolio valuation of financial assets and liabilities at the year-end.	The council has loans from the bank and public works loan board (PWLb). These are valued on the balance sheet at amortised cost. The loans are also included in fair value disclosures, the fair value is provided by Treasury Management advisors (MUFG Corporate Markets) based on accepted methodologies and assumptions. Fair value disclosures compare the balance sheet carrying value to fair values based on the premature repayment rate and also based on the new loan rate.	No change
Accruals	Each manually journalled debtor or creditor is individually considered and calculated.	Control activities are:- Review of ledger for accruals needed. Comparison to prior year for accruals needed. Calculation of accrual and completion of QA checklist for each accrual. Review and challenge for significant accruals. Review of outturn to forecast for missing/over accruals.	No	As the council operates a no PO/no pay policy, most expenditure accruals are system driven by the PO accrual process. Manually journalled debtors and creditors are not material balances on the balance sheet and are therefore unlikely to result in a material misstatement due to estimation uncertainty.	No change

Credit loss and impairment allowances	Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors.	Control activities are:- Review of aged debt reports. Comparison to prior year allowance. Review and challenge by The Financial Accounting Manager.	No	There are 8 categories of impairment allowances, none of which are individually material. Categories are housing benefits, council tax, business rates, court costs, housing, fairer charging, business support grants and a general impairment allowance. Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors. A general impairment allowance is assessed to be 50% of debtors over 90 days.	No change
PFI Liabilities	The liabilities are taken from the financial models set up at the start of the PFI schemes. IFRS 16 requires the opening liability to be remeasured each year if indexation is applied to the unitary payments.	Control activities are:- Check of balances from ledger to financial model. Review of balances compared to prior year.	Yes	The liabilities on the balance sheet relating to the three PFI schemes are based on financial models which are subject to estimates and assumptions.	No change

Title of report: Update to Risk Management Arrangements

Meeting: Audit and Governance Committee

Meeting date: Tuesday 25 March 2025

Report by: Director of Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To provide an update on the council's approach to risk management arrangements.

Recommendation

That:

- a) **The committee notes the activity completed to develop the Risk Management Strategy.**

Alternative options

- 1. The committee could choose not to consider the report, however this is not recommended as managing risk is a required function of council operations.

Key considerations

- 2. Further to the report presented to this committee and Risk Management workshop held in January 2025, activity to review and update the council's risk management arrangements has continued.
- 3. The revised Risk Management Strategy has been completed, incorporating a new Risk Appetite Statement which defines the level of risk the council is willing to accept to deliver the priorities of the Herefordshire Council Plan 2024-28 and annual Delivery Plan.

4. The Strategy sets out the approach and principles of risk management, outlining the council's risk appetite, risk management objectives and confirms the roles and responsibilities of elected Members and Officers across the council.
5. The Audit & Governance Committee is responsible for reviewing the adequacy of the council's governance arrangements, including the risk management framework and internal controls.
6. The Annual Governance Statement is presented to the Audit & Governance Committee as part of the statutory accounts and external audit process and the Committee is required to determine whether the Statement properly reflects the risk environment the council is operating in and that actions identified to strengthen governance arrangements are appropriate.
7. It is not a function of the Committee to examine specific risks however its functions include monitoring of the development and operation of risk management processes and receiving assurance from internal and external sources of the effectiveness of arrangements.
8. The Draft Strategy is included at Appendix A and this will be formally approved by Cabinet in June 2025. Risk management arrangements in 2025/26 will include monitoring and reporting of Corporate Risks via quarterly reports to Cabinet.
9. The council will continue to develop its risk management processes and a review of arrangements at Directorate and Service level will take place during Quarter 1 of 2025/26.

Community impact

10. Effective risk management is essential to the delivery of the priorities set out in the Council Plan. Specially, the Council plan commits the council to 'develop a Corporate Risk Strategy to improve the process for managing corporate and directorate risks'.

Environmental Impact

11. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
12. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy

Equality duty

13. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
14. The mandatory equality impact screening checklist has been completed for this activity and it has been found to have no impact for equality.

Resource implications

15. There are no specific resource implications from the report itself.

Legal implications

16. Risk Management arrangements are a function of this Committee under paragraph 3.5.9e(a) of Section 5 of Part 3 of the Constitution.

Risk management

17. N/A. This is a report to highlight progress in development of the council's Risk Management Strategy.

Consultees

18. None.

Appendices

Appendix A Draft Risk Management Strategy 2025/26.

Background papers

None identified.

Draft Risk Management Strategy 2025/26

RISK MANAGEMENT STRATEGY 2025/26

Introduction and Purpose

- 1.1 The Risk Management Strategy sets out how the council will effectively manage challenges and risks to delivering the priorities of the Herefordshire Council Plan 2024-28. The strategy aims to provide staff, elected members and partners with guidance to ensure there is an effective, robust and consistent framework for proportionate management of risk across the council.
- 1.2 It sets out the approach and principles of risk management, outlining the council's risk appetite, risk management objectives and confirming the roles and responsibilities across the council.
- 1.3 Risk management forms an integral part of the council's governance arrangements and decision-making processes and is fundamental to the successful delivery of strategic objectives. Effective risk management enables the council to make informed decisions in respect of challenges and risks within the boundaries of risk appetite, available resources and legislative and regulatory requirements and strengthens the council's ability to be agile to respond to challenges and opportunities.
- 1.4 This strategy has been prepared in accordance with the following guidance and regulatory frameworks:
 - Accounts and Audit Regulations 2015
 - The Orange Book (Management of Risk – Principles and Concepts) 2020 and Good Practice Guide: Risk Reporting
 - CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016
 - ISO 31000: 2018 Risk Management - Guidelines

Risk and Risk Management

Risk Definitions

- 2.1 Risk can be defined as the effect of uncertainty on objectives. For the council, risks represent threats, incidents or adverse events that prevent the achievement of the objectives of the Council Plan. Risk is typically expressed in terms of causes, potential events and their consequences.
- 2.2 The council accepts that risks are present across all services, operations, activities and in decision-making. Risks must be identified and evaluated in the context of the council's appetite for risk and risk management framework.
- 2.3 Risk management is the term used to describe the activities and methods designed and operated to manage risk and exercise internal control within the council. Risk management involves the identification, analysis and control of threats or events that adversely affect the achievement of the council's strategic and operational objectives. It also enables action to be taken to innovate and improve service provision.
- 2.4 The council's risk management framework outlines processes and activities by which risks are identified, evaluated, managed, monitored and reported.

Risk Categories

- 2.2 The categories of risk identified as part of the risk management framework are outlined in the table below. The Risk Appetite Statement is included at Appendix A and the level of risk appetite determined for each category of risk is set out at Appendix B.

Risk category	Risk definition
Strategic (Council Plan Priorities) <p>PEOPLE  We will enable residents to realise their potential, to be healthy and to be part of great communities that support each other. We want all children to have the best start in life.</p> <p>PLACE  We will protect and enhance our environment and ensure that Herefordshire is a great place to live. We will support the right housing in the right place and do everything we can to improve the health of our rivers.</p> <p>GROWTH  We will create the conditions to deliver sustainable growth across the county; attracting inward investment, building business confidence, creating jobs, enabling housing development and provide the right infrastructure.</p> <p>TRANSFORMATION  We will be an efficient council that embraces best practice, delivers innovation through technology and demonstrates value for money.</p>	<p>Risks that will prevent the timely delivery of priorities and objectives of the Council Plan 2024-2028 and supporting annual Delivery Plan.</p> <p>People: Risks arising from a failure to effectively support residents to live healthy lives in safe communities including failure to meet statutory responsibilities such as education services, children's safeguarding and social care, adult social care and corporate parenting responsibilities.</p> <p>Place: Risks arising from: failure to protect the environment and mitigate extreme weather conditions arising as a result of climate change, failure to deliver capital and major projects to expand infrastructure and develop cultural offering across the county.</p> <p>Growth: Risks arising from failure to support and enable business growth and investment within the county.</p> <p>Transformation: Risks arising from failure to deliver the council's transformation strategy and supporting plans to deliver required improvements and sustainable change across the organisation.</p>
Legal & Compliance	Risks arising from a defective transaction, a claim being made (including a defence to a claim or a counterclaim) or some other legal event occurring that results in a liability or other loss, or a failure to take appropriate measures to meet legal or regulatory requirements or to protect assets (for example, intellectual property).
Financial	Risks arising from not managing finances in accordance with requirements and financial constraints resulting in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, and/or non-compliant financial reporting.
Governance	Risks arising from unclear plans, priorities, authorities and accountabilities, and/or ineffective or disproportionate oversight of decision-making and/or performance.
Data & Technology	Risks arising from a failure to produce robust, suitable and appropriate data/information and to exploit data/information to its full potential.
Security	Risks arising from a failure to prevent unauthorised and/or inappropriate access to the estate and information, including cyber security and non-compliance with General Data Protection Regulation requirements.
Reputational	Risks arising from adverse events, including ethical violations, a lack of sustainability, systemic or repeated failures or poor quality or a lack of innovation, leading to damages to reputation and or destruction of trust and relations. The risk of detriment to Herefordshire Council's reputation locally and nationally.

Roles and Responsibilities for Risk Management

- 3.1 A strong risk management culture is demonstrated through the way in which staff and elected members understand, and comply with, the council's risk management strategy and processes and are fully aware of their respective roles and responsibilities.
- 3.2 The THRIVE core values are the guiding principles and beliefs that shape the council's culture and behaviours. These values promote a culture of trust and collaboration and provide a framework to align actions to the council's vision and priorities.

- 3.3 The core values of Trust, Honesty, Responsibility and Value support the effective management of risk across the council: individuals are trusted and empowered to explore opportunities within a clear risk management framework, to challenge consideration of risk in decision-making and service delivery, to take responsibility for designing controls to manage risks and to uphold high standards, ethics and integrity by raising and reporting risks at the appropriate level.
- 3.4 The roles and responsibilities for risk management within the council for Elected Members and Officers are outlined in the Table below.

ELECTED MEMBERS	
Role	Responsibilities
Leader of the Council and Cabinet	<p>The Leader of the Council and Cabinet are responsible and accountable for ensuring the council has effective risk management arrangements in place to support delivery of strategic priorities. Cabinet Members have specific responsibility for the oversight of risk arrangements within their individual portfolios.</p> <p>Cabinet approves the Risk Management Strategy and provides appropriate challenge to ensure that risk management implications are considered as part of strategic decision-making. It is accountable for ensuring that a corporate risk register is established and maintained, including details of actions to mitigate identified risks, and that this is regularly monitored.</p> <p>The Annual Governance Statement, which confirms the effectiveness of governance arrangements, including risk management arrangements, is certified by the Chief Executive and Leader of the Council.</p>
Audit & Governance Committee	<p>The Audit & Governance Committee is responsible for reviewing the adequacy of the council's governance arrangements, including the risk management framework and internal controls.</p> <p>The Annual Governance Statement is presented to the Audit & Governance Committee as part of the statutory accounts and external audit process and the Committee is required to determine whether the Statement properly reflects the risk environment the council is operating in and that actions identified to strengthen governance arrangements are appropriate.</p> <p>It is not a function of the Committee to examine specific risks however its functions include monitoring of the development and operation of risk management processes and receiving assurance from internal and external sources of the effectiveness of arrangements.</p>
All Elected Members	<p>All elected members have a responsibility to understand the council's risk management arrangements, the strategic risks to delivery of the priorities of the Council Plan and the appetite for each category of risk. Elected members are responsible for properly considering the risk implications during decision-making and policy approval, particularly where the decision may have resource implications, an impact on the authority's strategic priorities or propose a service change.</p>

OFFICERS	
Role	Responsibilities
Corporate Leadership Team	<p>Members of the Corporate Leadership Team (CLT) are collectively responsible for ensuring that all strategic risks are effectively managed, monitored and reported. CLT is responsible for ensuring for integrating risk to enable informed consequence-based decision-making.</p> <p>CLT has collective ownership of the Corporate Risk Register and Risk Appetite Statement and ensures that due consideration is given to identifying and managing the risks associated with the delivery of the council's strategic priorities and with major business change proposals. This may include reviewing the allocation of resources and establishing clear lines of accountability across the organisation and with external partners.</p> <p>CLT members create an environment and risk culture which embraces openness and clear communication, supports transparency, welcomes constructive challenge and promotes collaboration, consultation and co-operation.</p> <p>Individual Corporate Directors are responsible for the management of Directorate risks and providing information to Cabinet Members to enable oversight of significant risks within their portfolio.</p>
Director of Finance (\$151 Officer)	The Director of Finance (\$151 Officer) has specific responsibility for the oversight and delivery of financial management arrangements; achieved through a robust financial control framework, financial procedure rules, a scheme of delegation and an independent and objective Internal Audit function.
Monitoring Officer	The council's Monitoring Officer is the Director of Governance & Legal Services. This role has specific responsibility for risks which relate to lawfulness and fairness in the operation of the council's decision-making process.
Director of Children's Services	The Director of Children's Services (DCS) has specific responsibility for risks which relate to securing the provision of services which address the needs of all children and young people, and their families and carers, and those risks in respect of the performance of the council's functions relating to the education and social care of children and young people.
Director of Adult Social Services	The Director of Adult Social Services (DASS) is the Corporate Director (Community Wellbeing). This role has specific responsibility for risks which relate to the council's obligations under the Care Act and other relevant social care legislation.
Internal Audit	Internal Audit provides an independent and objective opinion on the council's governance, risk management and control environment; evaluating effectiveness through a risk-based approach. The annual Internal Audit Plan comprises: operational audit reviews, cross-cutting governance audits, annual review of key financial system controls, IT audits, grant assurance work and any other special or unplanned review; aligned to the council's corporate risks.
Risk & Insurance Manager	<p>The Risk & Insurance Manager is responsible for ensuring a consistent and proportionate approach to risk management across the council and for the provision of advisory support and challenge to risk owners.</p> <p>The Risk & Insurance Manager is responsible for the annual review of the Risk Management Strategy, analysing and reporting of corporate risks to CLT and the Audit & Governance Committee and working with colleagues across the council to help identify, assess and manage strategic risks. This role provides risk management training and development, and facilities risks workshops.</p>

Risk Owners (Heads of Service and Service Managers)	<p>Risk owners are responsible for ensuring that arrangements are in place within their directorates and services to identify and manage risks in accordance with the council's risk management framework.</p> <p>They are responsible for assessing the impact of controls, developing mitigations actions as required to manage risks in accordance with the council's risk appetite and maintain and reviewing service and directorate level risk registers.</p> <p>Senior Managers are responsible for determining the risk management training needs of their staff and ensuring that proportionate risk assessments are included in decision reports.</p>
All Council Staff	<p>All staff have a duty to consider the risks to the achievement of their day-to-day objectives and the council's strategic priorities. It is the responsibility of all staff to be aware of and to work to mitigate and control risks.</p> <p>Staff should also ensure that risks which they cannot manage, or those that have a wider impact, are escalated in accordance with the risk management framework.</p>

Risk Management Framework and Processes

- 4.1 The risk management framework is a series of co-ordinated activities and processes, carried out in sequence, by which risks are identified, evaluated, treated, reported and monitored on a regular basis. The risk management process helps us to:
- understand the nature of the risks faced and 'what could go wrong';
 - be aware of the extent of these risks;
 - identify the level of risk that the council is willing to accept; its risk appetite;
 - recognise the council's ability to manage and treat each risk, so appropriate decisions and action can be taken; and
 - take action, where possible, to avoid something going wrong and to minimise the impact.
- 4.2 The key elements of the council's risk management processes are summarised below:

Step 1: Establish Objectives

The starting point for the management of risks is the Herefordshire Council Plan 2024-28 and the strategies and plans that will support delivery of the key priorities and objectives (including the annual Delivery Plan).

Step 2: Identify the risks

Consideration should be given to the threats and opportunities to delivery of these objectives and priorities. The purpose of risk identification is to generate a comprehensive, up to date and easy to understand list of risks relevant to the council, directorate, service or programme/project.

There are a variety of ways in which risks can be identified including:

- Risk assessment exercises or workshops undertaken within Directorates, Services, projects and partnerships;
- Research and consideration of the risks or incidents that have affected others in delivering similar objectives;
- Review of local, national, and international policies, legislation, and events that may affect the objectives;
- Measurement of current performance and identification of weaknesses;
- Reviewing reports about council services, such as those issued by internal and external auditors and inspection results; and
- Consideration of risk categories and types.

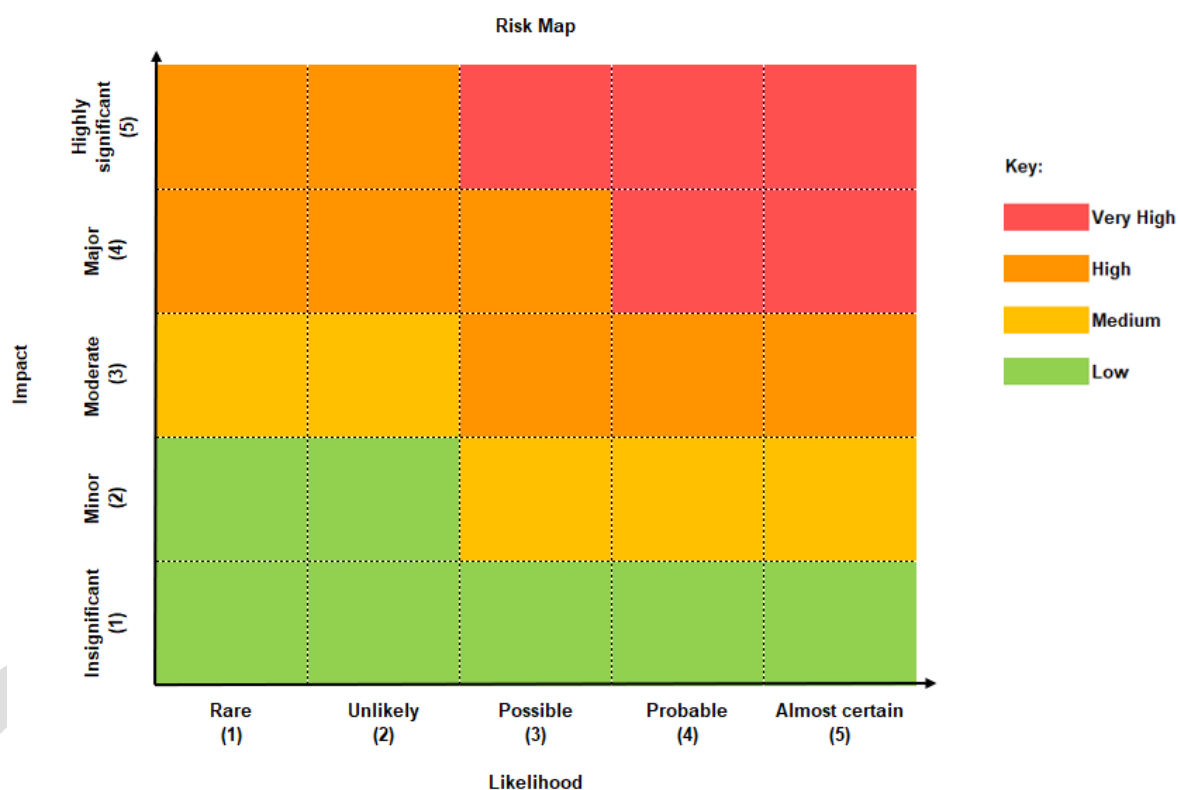
Risks need to be described in clear terms that can easily be understood and must specify the tangible threat or opportunity. Risks should generally be described in a couple of sentences, explaining the cause, risk and effect and the description should help determine how the risk will be managed and treated

Step 3: Analyse and evaluate the risk

Once identified, the risk should be analysed, evaluated and prioritised for treatment. Risks are rated through a combined assessment of:

- Likelihood: How likely the risk is to occur; and
- Impact: The potential impact / consequences, taking into account the controls already in place to manage/ mitigate the risk.

A '5x5' scoring mechanism is used to carry out the assessment of likelihood and impact to ensure that the risks are rated in a consistent way. These scores allow the risks to be plotted onto a risk chart, a visual tool used to illustrate and compare risks. The greater the assessed risk, the more effort will be required to manage it. The risks in the 'red zone', determined to have a very high likelihood and severe impact represent the risks which must be prioritised for treatment.



Many of the risks uncovered during the risk identification and analysis stages will already have controls in place to mitigate them and these, together with their effectiveness, should be taken into account when determining the scores. The assessment of controls should take place as part of the regular risk review.

The council has four risk rating options with corresponding risk management action:

Risk rating	Action
Very High	Immediate and significant management action and control required. Continued proactive monitoring of risk.
High	See cost effective management actions and controls. Continued proactive monitoring of risk.
Medium	Seek cost effective control improvements. Monitor and review risk regularly.
Low	Seek improvements to controls if cost effective to do so. Monitor and review risk regularly.

Risk ratings should be checked regularly as part of the routine risk review process and amended to take into account changes in the probability and impact scores, e.g. the implementation of additional controls or the completion of actions to manage the risk should result in a reduction in the risk rating.

Step 4: Manage (mitigate/treat) risks

Once a risk has been identified and its rating and priority determined, controls and actions to manage or treat the risk should be developed. Controls are activities which are carried out regularly to review the risk or something associated with it. An action is a one-off activity to bring in a control or change a specific matter associated with the risk.

Options for mitigating a risk should either minimise the likelihood of a risk event occurring, reduce the frequency with which it might occur or limit the severity of the consequences in the event that it does occur. Activity to determine the appropriate options to manage risks includes:

- identifying the existing controls in place;
- identifying what further controls and/or actions are required. This will either involve improving existing controls or developing and implementing new ones; and
- accepting that it is not possible to eliminate all risk and there are not reasonable mitigations available.

Whilst there are a variety of options to manage risk, the council recognises that it is not possible to eliminate all risks: in some cases, no one control can completely remove a risk and no amount of treatment can adequately control the risk. Progress in implementing actions to treat the risk should be regularly reviewed and reported.

There may be some element of 'residual risk' (the level of risk that remains after all appropriate treatment and controls have been implemented) and this will be recorded and monitored as part of risk management arrangements.

Responsibility and accountability for managing each risk needs to be assigned:

Risk owner: The person who is responsible and accountable for the risk. This should be someone with knowledge of the risk area and sufficient seniority to enable them to allocate resources to manage the risk and to ensure that actions required to treat it are completed.

Corporate risks are owned by the relevant Director. Directorate risks are usually owned by the relevant Head of Service or Senior Manager.

Step 5: Record and report

Risks need to be recorded and reported and this activity occurs through the Corporate, Directorate, Service, project and other risk registers across the council.

A risk register is a working document that records the key details of the risks, such as title/description, risk owner, risk rating, the main controls in place to manage the risk, a summary of the actions and their progress, and comments providing further information and updates on the management of the risk.

There are three key levels of risk register in the council's risk reporting framework:

Corporate Risk Register: Corporate risks are those of significant, strategic and cross-cutting importance that require the attention of the council's most senior managers and elected members. Each of the corporate risks has named risk owners: a lead Cabinet Member and a Director who are jointly accountable for their management.

Directorate Risk Registers: Directorate risks are those that require the attention of the respective Directorate Leadership Team (the Director and Heads of Service/Senior Managers). Directorate risks may be local versions of those on the corporate risk register e.g. directorate budget or information management and governance, articulating in more specific terms how the directorate manages the risk as it relates to their services. Other risks may reflect issues specific to that

directorate. Should a directorate risk increase in significance, to the extent that it may have a corporate impact, the risk may need to be escalated to the Corporate Risk Register.

Service Risk Registers: Service level risks, including those for programmes and projects, are those of a more operational nature. Risks at this level are reported to the respective Service Management Teams or Programme/Project Boards. Should a service level risk increase in significance, it may need to be escalated onto the directorate or even the corporate risk register.

Risk reporting should:

- provide relevant, sufficient and accessible risk information in a timely manner that facilitates decision making and action;
- ensure that the views of the board, committee or leadership/management team receiving the risk report are passed to the relevant risk owners and key contacts; and
- focus on the most significant risks, ensuring adequate responses are put in place; and
- facilitate the raising and discussion of new and emerging risks and encourage the escalation of risks to a higher level risk register where necessary.

The Risk & Insurance Manager is responsible for ensuring consistency in approach across the three levels of risk register.

Step 6: Monitor and update

Few risks and risk registers remain static, they evolve over time as risk characteristics, priorities and responsibilities change, and actions get completed. Monitoring and updating risk registers and records is an essential part of the risk management framework and this includes the following key elements:

- monitoring the changes in the risk characteristics and values;
- monitoring the effectiveness of our response to the risk by considering the adequacy of controls and how the risk actions are progressing and changing; and
- monitoring the risk profile; the regular review of the risks facing the council via the reporting of risk registers to the relevant boards, committees and leadership teams.

Any changes identified during the monitoring meetings should be reflected in the risk/risk register.

Identifying when a risk should be escalated is an important part of the monitoring process. There may be instances where further action to mitigate a risk cannot be taken by its current owner meaning it needs to be escalated e.g. from the Directorate to Corporate Risk Register or from the Service to Directorate Risk Register. This activity will be supported by the council's Risk & Insurance Manager.

Risk Governance Assurance

- 5.1 Risk management is a key part of the council's governance arrangements and the Risk Management Strategy supports compliance with statutory requirements of the Accounts & Audit Regulations 2015. These regulations require the council to undertake a review of the effectiveness of its internal controls systems and governance arrangements, including risk management, and this is reported in the Annual Governance Statement.
- 5.2 This statement explains how the council has discharged its governance responsibilities during the financial year, the key governance mechanisms in place and planned future improvements to strengthen arrangements and controls.
- 5.3 Risk governance across the council is demonstrated by the following arrangements:
 - roles and responsibilities for risk management have been identified, documented, and communicated;
 - risk is integrated with decision making. All decision reports must include an outline of the key risks along with information on how they are to be managed; and
 - risk is embedded at Service, Directorate and Corporate levels across the council and risks management arrangements are widely reported.

Appendix A – Risk Appetite Statement 2025/26

Risk Appetite Statement 2025/26

- 6.1 The Risk Appetite Statement forms part of the risk management framework and defines the level of risk the council is willing to accept to deliver the priorities of the Herefordshire Council Plan 2024-28 and annual Delivery Plan.
- 6.2 Identifying the level of risk appetite for each of the council's key risk categories ensures a balanced and proportionate approach to the management of risks which is aligned to the delivery of strategic objectives. This approach recognises that there will be a range of appetites for different risks and that these appetites may change as the priorities and operating conditions of the council evolve.
- 6.3 The Statements sets out clear boundaries for risk-taking and serves as a guide for decision-making and management of risk at all levels. A clear risk management framework encourages and supports innovation and collaboration, ensuring that opportunities are explored within a specified risk appetite.
- 6.4 Risks will be monitored and managed against the risk appetite levels determined for each category and where decisions or planned activities expose the council to risks above the accepted risk appetite, the impact will be assessed and escalated as part of the risk management and governance framework.

Risk Appetite Levels

- 6.5 The levels of risk appetite which guide the council's risk management activity are outlined below:

	Risk appetite	Description
Tolerate less risk---->	Averse	Avoidance of risk and uncertainty in achievement of key deliverables or initiatives is key objective. Activities undertaken will only be those considered to carry no/low degree of inherent risk.
	Cautious	Preference for safe options that have low degree of inherent risk and only limited potential for benefit. Willing to tolerate a degree of risk in selecting which activities to undertake to achieve key deliverables or initiatives, where we have identified scope to achieve significant benefit and/or realise an opportunity. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent.
<----Tolerate more risk	Open	Willing to consider all options and choose one most likely to result in successful delivery while providing an acceptable level of benefit. Seek to achieve a balance between a high likelihood of successful delivery and a high degree of benefit and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.
	Eager	Eager to be innovative and to choose options based on maximising opportunities and potential higher benefit even if those activities carry a very high residual risk.

- 5.6 The level of risk appetite determined for each category of risk is set out in the Risk Appetite Matrix at Appendix B.

Appendix B – Risk Appetite Matrix

Risk category	Risk appetite level definition			
	Averse	Cautious	Open	Eager
Strategic (Council Plan Priority: PEOPLE)	Innovation largely avoided unless essential. Decision making authority held by senior management.	The council has a limited tolerance to risk. Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management.	The council is ambitious in its aim to support children and young people to thrive within highly effective schools and flourishing communities. It seeks out opportunities to collaborate with partners to support residents to live healthy lives within connected and safe communities and is prepared to accept a level of risk to deliver against this priority.	Innovation pursued – desire to 'break the mould' and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
Exception 1: Safety and wellbeing of residents	Limited appetite to risk. The council is responsible for providing care to those who need it most, including vulnerable adults and children and operates rigorous safeguarding measure to ensure the health and safety of residents. The council will continually seek to avoid activities that present a threat to the safety of the public and will do everything to prevent the loss of life.			
Strategic (Council Plan Priority: PLACE)	Innovation largely avoided unless essential. Decision making authority held by senior management.	The council has a limited tolerance to risk. Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management.	The council is innovative and pioneering in its commitment to managing the effects of climate change across the county. It has ambitious plans to deliver learning and culture projects and to expand infrastructure, to support economic growth and housing, and is prepared to accept a level of risk to deliver against this priority.	Innovation pursued – desire to 'break the mould' and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.

Risk category	Risk appetite level definition			
	Averse	Cautious	Open	Eager
Strategic (Council Plan Priority: GROWTH)	Innovation largely avoided unless essential. Decision making authority held by senior management.	The council has a limited tolerance to risk. Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management.	The council is aspirational and seeks out opportunities to attract investment, drive business growth and development of talent across the county and is prepared to accept a level of risk to deliver against this priority.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control.
Strategic (Council Plan Priority: TRANSFORMATION)	Innovation largely avoided unless essential. Decision making authority held by senior management.	The council has a limited tolerance to risk. Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management.	The council is committed to improving the use of technology across its services and will embrace new technologies, test ideas and develop a culture of innovation to improve services and deliver value for money. Transformation and Digital Strategies in place to support deliver of aims.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control.
Legal & Compliance	Play safe and avoid anything which could be challenged, even unsuccessfully.	The council has a cautious appetite level towards legal and compliance risks with robust processes in place to ensure the risk of legal challenge is minimised.	Legal challenge will be problematic; we are likely to win, and the gain will outweigh the adverse impact.	Chances of losing legal challenge are high but exceptional benefits could be realised.
Financial	Avoidance of any financial impact or loss, is a key objective.	Seek prudent financial options and solutions with little or no residual financial loss. Maintain strong financial governance and systems to protect financial position.	Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels.	Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place).
Governance	Avoid actions with associated risk. No decisions are taken outside of processes and oversight / monitoring arrangements. Organisational controls minimise risk of fraud, with significant levels of resource focused on detection and prevention.	Willing to consider actions where benefits outweigh risks. Processes, and oversight / monitoring arrangements enable cautious risk taking. Implemented controls enable fraud prevention, detection and deterrence by maintaining appropriate controls and sanctions.	Receptive to taking difficult decisions when benefits outweigh risks. Processes, and oversight / monitoring arrangements enable considered risk taking. Levels of fraud controls are varied to reflect scale of risks with costs.	Ready to take difficult decisions when benefits outweigh risks. Processes, and oversight / monitoring arrangements support informed risk taking. Levels of fraud controls are varied to reflect scale of risk with costs.

Risk category	Risk appetite level definition			
	Averse	Cautious	Open	Eager
Data & Technology	Lock down data & information. Access tightly controlled, high levels of monitoring.	Accept need for operational effectiveness with risk mitigated through careful management limiting distribution.	Accept need for operational effectiveness in distribution and information sharing.	Level of controls minimised with data and information openly shared.
Security	Low tolerance for security risks causing loss or damage to property, assets, information or people. Risks minimised through stringent security measures,	Limited security risks accepted to support business need, with appropriate checks and balances in place.	Considered security risk accepted to support business need, with appropriate checks and balances in place.	Willing to accept security risk to support business need, with appropriate checks and balances in place.
Reputational	Zero appetite for any decisions with high chance of repercussion for the council's reputation.	Appetite for risk taking limited to those events where there is little chance of any significant repercussion for the council.	Appetite to take decisions with potential to expose the council to additional scrutiny, but only where appropriate steps are taken to minimise exposure.	Appetite to take decisions which are likely to bring additional organisational scrutiny only where potential benefits outweigh risks.



Title of report: Work programme

Meeting: Audit and Governance Committee

Meeting date: 25 March 2025

Report by: Democratic Services Officer

Classification

Open

Decision type

This is not an executive decision.

Wards affected

(All Wards)

Purpose

To consider the committee's work programme (Appendix A).

Recommendation(s)

- (a) **That, subject to any further updates made by the committee, the work programme for the Audit and Governance Committee be noted.**

Alternative options

1. There are no alternative options, as the committee requires such a programme in order to set out its work for the coming year.
2. Updating the work programme is recommended, as the committee is required to define and make known its work. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.

Key considerations

3. The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.
4. The committee is asked to consider any adjustments.

Community impact

5. A clear and transparent work programme provides a visible demonstration of how the

committee is fulfilling its role as set out in the council's constitution.

Environmental impact

6. Whilst this is an update on the work programme and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

7. This report does not impact on this area.

Resource implications

8. There are no financial implications.

Legal implications

9. The work programme reflects any statutory or constitutional requirements.

Risk management

10. The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurances that risk management processes are robust and effective.

Consultees

11. The Director of Finance and Assurance / S151 Officer, Director of Governance and Legal Services / Monitoring Officer, and committee members contribute to the work programme; the work programme is reviewed at each meeting of the committee.

Appendices

Appendix A Work programme for the Audit and Governance Committee

Background papers

None identified.

Audit and Governance Committee Constitution		Report	July 2024	September 2024	October 2024	January 2025	March 2025	June 2025	July 2025
3.5.10	Internal Audit	Internal Audit							
a	To consider the Head of Internal Audit’s annual report and opinion, and a summary of internal Audit activity (actual and proposed) and the level of assurance it can give over the Council’s corporate governance arrangements.	Planning Paper Audit Charter Rolling Plan (also inclu. in Progress Report)					Planning Paper Audit Charter Rolling Plan (inclu. in Progress Report)		
b	To consider summaries of specific Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.	Progress Report	Internal Audit - Progress Report (including update on audit actions)		Internal Audit – Progress Report (including update on audit actions)	Progress Report	Progress Report (if there is progress to be reported outside of annual opinion)		Progress Report
c	To consider reports dealing with the management and performance of the providers of Internal Audit Services.								
d	To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.	Progress Report				Progress Report			Progress Report
e	To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee.	<i>This would support progress report when necessary</i>							
f	The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council.	As and when investigations take part as part of progress reports (see part b for timings)							
3.5.11	External Audit	External Audit							
a & b	Review and agree the External Auditors annual plan, including the annual audit Fee and annual letter and receive regular update reports on progress. To consider specific reports from the External Auditor.	External Audit Annual Plan Annual Audit Fee Letter External Audit Progress Update External Audit Findings Report External Auditor’s Annual Report Update on Audit Recommendations Report	External Audit Progress Report	1) External Audit Findings Report 2) External Audit – Auditor’s Annual Report 2023/24			External Audit - Audit Plan 2024/25	External Auditor’s Draft Plan (including indicative fee)	External Audit Progress Report
c	To meet privately with the External Auditor once a year if required.	Not required to be scheduled on work programme							
d	To comment on the scope and depth of external audit work and to ensure it gives value for money.	No specific activity required as part of normal questioning activity							
e	To recommend appointment of the council’s local (external) auditor.	As and when required.							
f	Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.	No specific activity required as part of normal questioning activity. External Audit can place limited reliance on Internal Audit Work.							
3.5.12	Governance								
a	To maintain an overview of the council’s Constitution, conduct a biennial review and recommend any changes to council other than changes to the contract procedure rules, finance procedure rules which have been delegated to the committee for adoption.	Accounting Policy Update Contract and Finance Procedure Rules Proposed Changes to the Constitution				Contract and Financial Procedure Rules Update	Accounting Policy Update (if required)		
b	To monitor the effective development and operation of risk management and corporate governance in the council.	Work Programme Corporate Risk Register	Work Programme	Work Programme Coporate Risk Registers	Work Programme Annual review of the Council’s use of the Regulation of. Investigatory Powers Act 2000 (RIPA).	Work Programme Update to Risk Management Arrangements and Corporate Risk Registers	Work Programme Update to Risk Management Arrangements and Corporate Risk Registers	Work Programme Dates of future meetings / work programme Draft Annual Report of the Audit & Governance Committee	Work Programme Annual review of tender waivers
c	To maintain an overview and agree changes to the council policies on whistleblowing and the ‘Anti-fraud and corruption strategy’.	Whistleblowing Policy Anti-Fraud, Bribery and Corruption Strategy			Whistleblowing Policy	Annual Fraud Report			Anti-fraud, Bribery and Corruption Policy
d	To oversee the production of the authority’s Statement on Internal Control and to recommend its adoption.	Statement of Accounts						2023/24 Draft Statement of accounts	
e	To annually conduct a review of the effectiveness of the council’s governance process and system of internal control which will inform the Annual Governance statement.	Annual Governance Statement		Final Annual Governance Statement				Draft Annual Governance Statement	
f	The council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance.	Annual Governance Statement Progress Report				Governance Statement Progress Report on Actions			

Audit and Governance Committee Constitution		Report	July 2024	September 2024	October 2024	January 2025	March 2025	June 2025	July 2025
g	To annually review the council's information governance requirements.	Annual Review of Information Access / Governance		Annual Review of Information Access / Governance					
h	To agree the annual governance statement (which includes an annual review of the effectiveness of partnership arrangements together with monitoring officer, s151 officer, caldicott guardian and equality and compliance manager reviews).	Annual Governance Statement Annual Governance Statement Progress Report							
i	To adopt an audit and governance code.	On an ad hoc basis only							
j	To undertake community governance reviews and to make recommendations to Council.	On an ad hoc basis only							
3.5.13	Waste Contract								
a	To review, in conjunction with external advisers advising the council as lender, the risks being borne as a result of the funding provided by the council to Mercia Waste Management Ltd and consider whether the risks being borne by the council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice.	Energy from Waste Loan Update			Energy from Waste Loan Update				
b	To monitor the administration of the loan to the waste project in line with best banking practice having regard to any such external advice, including the terms of any waivers or amendments which may be required or are desirable.	Energy from Waste Loan Update			Energy from Waste Loan Update				
c	Consider what steps should be taken to protect the interests of the council as lender in the event of a default or breach of covenant by Mercia Waste Management Ltd, and make recommendations as appropriate to Council, the council's statutory officers or cabinet as appropriate to ensure the appropriate enforcement of security and litigation in relation to the loan to Mercia Waste Management Ltd	Energy from Waste Loan Update			Energy from Waste Loan Update				
d	Consider and recommend appropriate courses of action to protect the position of the council as lender to the waste project: (i) make recommendation as appropriate to Council with regards to its budget and policy framework and the loan to the waste project (ii) generally to take such other steps in relation to the loan within the scope of these terms of reference as the committee considers to be appropriate.	Energy from Waste Loan Update			Energy from Waste Loan Update				
3.5.14	Code of Conduct: To promote and maintain high standards of conduct by members and co-opted members of the Council								
a	To support Town and Parish Councils within the county to promote and maintain high standards of conduct by members and co-opted members of the Council.	Annual Code of Conduct Report	Code of Conduct for Councillors – 2023/24						Code of Conduct for Councillors – 2023/24
b	To recommend to Council the adoption of a code dealing with the conduct that is expected of members and co-opted members of the Council.								
c	To keep the code of conduct under review and recommend changes/replacement to Council as appropriate.					Code of Conduct for Councillors - 6 monthly update			Appointments to the Standards Paenl
d	To publicise the adoption, revision or replacement of the Council's Code of Conduct.								
e	To oversee the process for the recruitment of the Independent Persons and make recommendations to Council for their appointment.	Recruitment done on an as required basis							
f	To annually review overall figures and trends from code of conduct complaints which will include number of upheld complaints by reference to individual councillors within unitary, town and parish councils and when a code of conduct complaint has been upheld by the Monitoring Officer or by the Standards Panel, after the option of any appeal has been concluded, promptly to publish the name of the councillor, the council, the nature of the breach and any recommendation or sanction applied.	Annual Code of Conduct Report							
g	To grant dispensations under Section 33 (2)(b)(d) and (c) Localism Act 2011 or any subsequent amendment.	On an ad hoc basis only							
h	To hear appeals in relation to dispensations granted under section 33 (2)(a) and (c) Localism Act 2011 by the monitoring officer.	On an ad hoc basis only							
3.5.15	Accounts								
	To review and approve the Statement of Accounts, external auditor's opinion and reports on them and monitor management action in response to the issues raised by external audit.	Statement of Accounts External Auditor Report		Final Statement of Accounts					