Grant Thornton

The Audit Findings for Herefordshire Council

Year ended 31 March 2022

31 October 2022

Contents

Your key Grant Thornton team members are:

Peter Barber
Key Audit Partner
T 0117 305 7897
E Peter.A.Barber@uk.gt.com

Gail Turner-Radcliffe
Manager
T 029 2034 7546
E Gail.Turner-Radcliffe@uk.gt.com

Siddharth Jain
Assistant Manager
T 0117 305 7600
E Siddharth.Jain@uk.gt.com

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

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

Name : Peter Barber
For Grant Thornton UK LLP
Date : 31 October 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

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

We commenced our post-statements audit in late June and as at 24 October 2022 our audit is substantially complete. Our findings are summarised on pages 5 to 20. Our work to date has identified one material error and a resulting prior period adjustment in the financial statements that have been corrected in the revised statements. This error relates to the reclassification of the council's Energy from Waste asset, previously reported as a land & building asset, as an item of plant & machinery in 2021/22. In addition, we identified a number of other non-material and presentational disclosure items that have resulted in an adjustment of £143k to the council's Comprehensive Income & Expenditure Statement.

All audit adjustments including those aimed at improving the presentation of the financial statements as detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The draft financial statements were submitted for audit in line with the agreed timetable, along with supporting working papers. There has been significant change in the finance team supporting the audit process this year. This has resulted in further quality review by the incoming Head of Strategic Finance and additional work on both our part and that of the new team to correct a number of historic errors.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements. This is subject to the successful resolution of the national infrastructure issue for which CIPFA are currently pursuing a statutory override.

Subject to completing our remaining audit procedures set out on page 5, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the receipt of the letter of assurance from the Worcestershire Pension Fund auditor in early November 2022.

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

Our anticipated audit report opinion will be finalised upon conclusion of the audit.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee on 28th September 2022 and is included at Appendix G to this report. We expect to issue our Auditor's Annual Report by January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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

Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in January 2023.

Significant Matters

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

Acknowledgements

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

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you in June 2022.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing our audit opinion. These outstanding items include:

- Review of consolidation procedure;
- Review of responses from component auditor to group audit instructions;
- Responses for queries on revaluation of Investment Properties and Other Land & Buildings;
- Review of valuation of Infrastructure assets;
- Receipt of letter from Pension fund auditors;
- Review of Private Finance Initiative note;
- Review of revised notes for Cash flow statement;
- Receipt of evidence for Expenditure & Funding analysis
- Review of Provisions (including NNDR provisions)
- Evidence for testing of Council Tax and NNDR reliefs;
- Responses for queries on Officer's remuneration note;
- Review of Going concern assumption;
- Review of litigations and claims;
- Review of Annual Report and Annual Governance Statement;
- Final review by Audit Manager and Engagement Lead;
- Receipt of management representation letter; and
- Review of the final set of financial statements.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan in June 2022. We detail in the table opposite our determination of materiality.

*please note the materially applied to senior officer remuneration was incorrectly recorded in our plan as £1m with the actual materiality used being £15,000.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.864m	£7.7m	1.8% of gross revenue expenditure
Performance materiality	£5.5m	£5.39m	70% of materiality
Trivial matters	£393k	£385k	5% of total headline materiality
Materiality for Senior Officer Remuneration*	£15k	£15k	1.8% of senior officer remuneration note

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • tested consolidation adjustments made to arrive at group account balances • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our review identified that the review process in place for high value journals is not working as intended. We include a recommendation in Appendix A in respect of this issue. Our audit work, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls. For all the journals reviewed we concluded that they were appropriate transactions.
Presumed risk of fraud in revenue recognition ISA (UK) 240 Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition **Public Audit Forum- Practice Note 10** Practice Note 10 states that as most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition. Having considered the expenditure streams of Herefordshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	In our Audit Plan we concluded that we did not consider this to be a significant risk for the Council. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment.
Valuation of land and buildings and investment properties The Authority revalues its land and buildings on a rolling five-yearly basis. For investment Properties the Council revalues these assets annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding and engaged our own valuer to assess the instructions to the Council's valuers, the Council's valuers' report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our work has identified a number of material errors in the valuation of land, buildings and investments properties that have now been corrected in the revised financial statements. The most significant of these were: - The incorrect categorisation of some PPE assets as Investment Properties and visa-versa. The net impact at 31 March 2022 was not material as set out in more detail on page 13 - The incorrect categorisation of the the Energy from Waste Plant as land and buildings when it should have been recorded as plant and equipment as set out in more detail on page 11 See pages 11 and 13 for the detailed findings in this area.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. There have been no issues noted in our work that we need to bring to your attention to date. We are currently awaiting assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Valuations of Infrastructure Assets The Council owns infrastructure assets with a net book value of £283.4m (£269.3m as at 31 March 2021). The CIPFA Code of Practice on local authority accounting (the Code) states that infrastructure assets shall be measured at depreciated historical cost. There is a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balances sheet and monitored through the asset register. The Council should consider whether the carrying value remains appropriate, or whether there are any indications of significant impairments and also the replacement of assets that have not been fully depreciated and the subsequent derecognition of the replaced assets, such as highways and street lighting.	We have: • Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets • Evaluated management's processes and assumptions for the calculation of the estimate • Challenged the information and assumptions used to inform the estimate • Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets. Our work in this area remains on-going whilst we await the conclusion of review by CIPFA. We understand that a statutory override will be issued along with guidance from CIPFA as to the correct accounting and disclosure treatment.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £358.9m (£343.0m 2020/21)	Land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP to complete the valuation of properties as at 31 March 2022 on a two year rolling programme. 58% (2020/21 90%) of total assets amounting £209.0m were revalued during 2021/22. Out of these £155.7m were valued at DRC and £53.3m were valued at EUV. The total year end valuation of land and buildings was £358.9m (2020/21 £ 343.0m), a net increase of £15.9m from 2020/21.	We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included: • an assessment of management's expert, who we found to have relevant experience and professional qualifications; • review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; • consideration of the appropriateness of any alternative site assumptions; • assessing the impact of any changes to valuation method, which we considered to be immaterial; and • an assessment of the adequacy of disclosure of estimate in the financial statements. The draft financial statements presented for audit included a number of reclassifications of assets. Management re-reviewed these reclassifications (see page 16 for further details) during the audit and some were subsequently reversed back to the original classification. The following assets, however, were reclassified: Burghill Hospital Farm and Small Holdings Estate (£0.7m) – this was taken from Surplus Assets and reclassified as Land and Buildings - Maylords Shopping centre (£10.2m)– this was taken from Investment Property and reclassified as Land and Buildings. The Audit Team challenged Management on the classification of the Energy From Waste asset (£30.2m) as it was noted that even though this is a jointly owned asset with Worcestershire County Council, a differing categorisation treatment was being applied across the two councils. Management subsequently agreed that the asset should be reclassified from Land and Buildings to Plant and Equipment. As this asset is of a material value, and this categorisation error existed last year, Management have restated the prior period disclosure to correct the mistake in the comparators. In addition, there were properties transferred out of Land and Buildings to Investment Property – see page 13 for further details. The adjustments noted above have been agreed by the Audit Team and there have been no further issues noted in our work that we need to bring to your attention.	Light Purple

Assessment

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property valuation – £40.1m (£38.7m 2020/21)	Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale. Management have engaged Wilks, Head and Eve to provide an annual valuation of these properties in-line with the requirements of the CIPFA code.	We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included: • an assessment of management's expert, who we found to have relevant experience and professional qualifications; • review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; • consideration of the appropriateness of any alternative site assumptions; • assessing the impact of any changes to valuation method, which we considered to be immaterial; and • an assessment of the adequacy of disclosure of estimate in the financial statements. Further to the reclassifications noted in page 11 of this report, the following assets amounting to £3.9m were reclassified from Land and Buildings to Investment Property: - Three Elms Industrial Estate - Number 3 Blackfriars Street - Franklin House Offices The adjustments noted above have been agreed by the Audit Team and there have been no further issues noted in our work that we need to bring to your attention.	Light Purple

Assessment

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

2. Financial Statements – net impact of incorrect asset classifications

This section provides information about the net impact of incorrect asset classifications

Prior Period Adjustment assessment – non material assets considered in totality

Assets moved to and from Land and Buildings

Asset name	2020/21 £000	2021/22 £000
Assets moved to Land and Buildings:		
- Maylords shopping Centre	3,271	10,161
- Burghill Hospital Farm	425	399
- Burghill Small Holdings Farm	302	376
Assets moved from Land and Buildings:		
- Three Elms Industrial Estate	(2,802)	(3,226)
- No. 3 Blackfriars Street	(107)	(79)
- Franklin House Offices	(982)	(836)
Total	**107**	**6,795**

The table above shows that the impact is not material for the year ended 31 March 2021 or 31 March 2022 and therefore a prior period adjustment for these assets is not necessary.

Prior Period Adjustment assessment – material assets considered in individually

The Energy from Waste asset is jointly owned with Worcestershire County Council, with Herefordshire Council's share being £30.2m. This has previously been classified as Land and Buildings by the Council, however upon challenge by the Audit Team, it was agreed that this should be re-classified as Plant and Equipment. This has therefore resulted in a prior period adjustment to the financial statements.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £273.2m	The Council's net pension liability at 31 March 2022 is £273.2m (PY £282.3m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £23.1m (PY £13m loss) net actuarial gain during 2021/22.	In assessing the estimate, we have considered the following: • the actuary's experience, competence and professional qualifications; • the actuary's approach, through the use of PwC as an auditors expert, used to assess the methods and assumptions used (see table below for consideration of the assumptions adopted); • the completeness and accuracy of the underlying information used to determine the estimate by comparing it to source records and other data provided through the audit; • the impact of any changes to valuation method – none were noted; • the assurances provided by the auditor of Worcestershire Pension Fund over the process and controls in place at the Fund over the information provided to the actuary; • the adequacy of disclosures of estimate in the financial statements; and • the reasonableness of the Council's share of the pension assets.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7% to 2.8%	●
Pension increase rate	3.4%	3% to 3.5%	●
Salary growth	4.9%	4.65% to 4.9%	●
Life expectancy – Males currently aged 45 / 65	24.1 / 22.6	22.2-24.8 / 20.7-23.3	●
Life expectancy – Females currently aged 45 / 65	27 / 25	25.7-27.5 / 23.8-25.5	●

There have been no issues noted in our work that we need to bring to your attention.

Assessment

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

2. Financial Statements – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

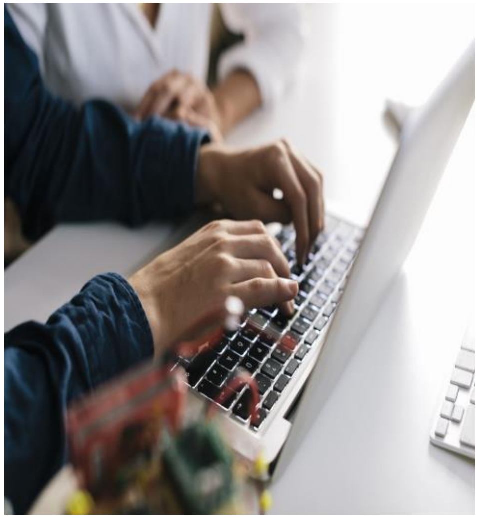
Significant matter	Commentary	Auditor view and management response
Capital Financing Requirement(CFR) As a result of high profile issues raised at other local authorities in relation to CFR, this was a particular area of focus in this year's audit. Our initial review of the CFR disclosure within the notes to the financial statements suggested that this had been incorrectly calculated. The CFR is a technically complex area and additional work was required on the part of the Council and subsequently us as your auditors in confirming the accuracy of the updated disclosures in the financial statements.	CFR measures the Council's underlying need to borrow as a result of capital investment, and it is effectively a summary of the effect of the financing and affordability decisions taken by an authority to fund capital expenditure. The monitoring of the CFR plays a key role in the prudential framework, and is regularly reported to members as part of the Council's treasury management activities.	We have performed the check as prescribed in the Practioners guide to capital finance in local government 2019 edition – Capital Financing Checklist Section G. There were material variances in this reconciliation which we discussed with Management. Following the audit team's challenge, Management have investigated the variances and identified that this was due to the fact that repayments received on capital debtors (Mercia Waste Management Loan) had not been considered in the calculation of CFR. This has now been rectified through an adjustment to current year CFR since the error in the prior period is not material. The cumulative balance of capital loan repayments at 1 April 2020 (£3.7m) along with capital loan repayments for 2020-21 (£1.5m) & 2021-22 (£1.6m) are proposed to be adjusted in the current year itself. The total adjustment will be £6.8m. The restated closing CFR will be £308.4m (previously reported as £315.2m). The proposed adjustment to Opening CFR for 2020-21 (£3.7m) and the Closing CFR for 2020-21 (£5.2m) are both below performance materiality and hence a PPA is not required. Herefordshire have instead made the correction through an adjustment in the current year by adding a line for 'Repayment of Long Term Debtors' for £6.8m. A revised CFR calculation is now included in the amended accounts, along with the changes required to reflect the loan repayment as a capital receipt. We are now comfortable with this revision. Management response Disclosure of the Capital Financing Requirement has been revised in Note 31: Capital Expenditure & Financing in the revised 2021/22 statement of accounts.

2. Financial Statements - other communication requirements

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

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

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment confirmations. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	Management have experienced a period of change within the finance team, with the experienced individual, who has prepared the financial statements for a number of years, leaving the Council's employment before the financial statements were prepared. An interim team was therefore responsible for drafting the financial statements and recruitment was undertaken for a permanent post. This has therefore meant that the experience and knowledge within the team of the audit process was lost and small delays were noted whilst the team understood who had prepared what information. As discussed on pages 11 to 13, there were a number of reclassifications to the Property, Plant and Equipment and Investment Property categories and some of these were reversed by the new team member coming into post upon her review of the draft financial statements and working papers. All information and explanations requested from management have been provided, noting that our work continues in certain areas.

2. Financial Statements - other communication requirements

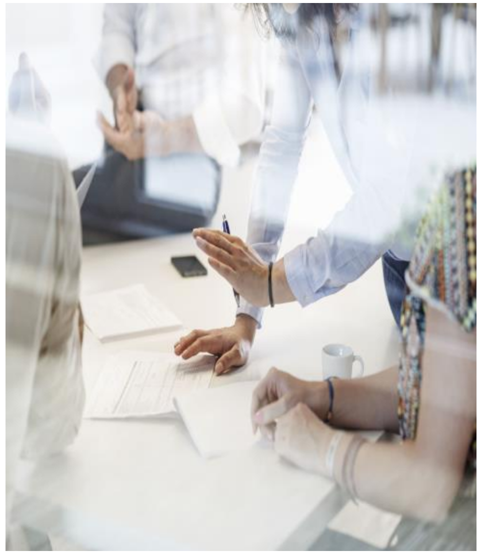
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work is on-going in this area.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. Our work is on-going in this area.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Herefordshire **Council** in the audit report, as detailed in Appendix E, due to our Value for Money work not being complete.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Governance and Audit Committee on 28th September 2022 – See Appendix G. We expect to issue our Auditor's Annual Report by January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below.

Risk of significant weakness
Children's Social Care Services Risk description: A significant weakness was identified in the 2020/21 Annual Auditors Report around the Council's failure to meet the statutory needs of children in its care. The Council is currently reviewing the children's services to identify areas for improvement. Risk response: We will therefore review the Council's progress in this area including the costs incurred and how these compare to budgeted costs.
Contract Management Risk description: A significant weakness was identified in the 2020/21 Annual Auditors Report around the Council's lack of effective contract management arrangements for its public realm and facilities management contracts, to enable it to hold its contractor to account. Risk response: We will therefore review the actions taken by the Council following the legal advice received and review the progress made since March 2021.
Balfour Beatty Living Places (BBLP) Risk description: A significant weakness was identified in the 2020/21 Annual Auditors Report around Balfour Beatty Living Places (BBLP) as the Council did not establish the validity of contracting and continuing to trade with a company which was dormant or otherwise non-trading from a formal perspective. Risk response: We will therefore review the actions taken by the Council following the legal advice received and review the progress made since March 2021.
Repeated history of not learning or following up on past actions Risk description: Our understanding of the Council suggests that there is a repeated history of not learning or following up on past actions, for example Blue School House, Safeguarding Peer on Peer Review and Hereford City Centre Transport Package. We consider that this is a risk of significant weakness at the planning stage. Risk response: We will therefore review the governance arrangements the Council has in place to ensure that it has learnt from past reviews and implemented recommendations. We will: - Discuss with statutory officers and those charged with governance how they gain assurance that previous recommendations have been actioned - Review arrangements the Council has made to supporting a learning and development culture - Review of Blue School House project, Hereford City Centre Transport Package and Safeguarding Peer on Peer review reporting and assess how the recommendations have been actioned.

5. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Transparency

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

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,500 in comparison to the total fee for the audit of £179,667 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	13,698	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,698 in comparison to the total fee for the audit of £179,667 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	<u>Journals</u> Users with the ability to post journals have limits set within Business World which limit the size of journals that can be posted. In addition, Management have a monthly review process outside of the ledger to ensure that journals posted are appropriate. As per this review process, the finance team receive an automatic notification from Business World at the end of each month showing all journals above £250k (£2m for journals posted after year end). The notification also detail whether or not a document has been attached to support the journal within Business World. This notification is then reviewed by the finance team to identify if any journals are unsupported. During our review of Journals, we identified instances where no documents were attached to Business World and also cases where the review workpaper was not accurately maintained. Moreover, we were also informed that this review procedure is not carried out for journals posted after period 12. We recommend the council to ensure stricter controls around review of high value journals and maintain proper audit trail to evidence such review.	We recommend the council ensure that there is a process in place to review journals to ensure postings are appropriate. **Management response** Officers will review the controls in place over the authorisation of high value journals and ensure that evidence to support postings is prepared and reviewed.
Low	<u>Lease agreements</u> The Council has investment properties which it leases to tenants. During our review we noted that several lease agreements have ended but lease has been continued with the Council receiving monthly income with no contract to support the arrangement. In addition to this, we found three instances (in our sample of five leases) whereby the Council have charged the wrong amount.	We therefore recommend that Management review the lease agreements for all investment properties and ensure that these are renewed where the existing arrangement has expired and that the correct charges are being applied. **Management response** A review of leases will be undertaken in 2022/23 to ensure accurate and consistent charging arrangements are in place, supported by up to date lease agreements.
Low	<u>Bank Reconciliation</u> During our audit of the bank reconciliation we noted that there were several outstanding cheques related to Housing Benefits that were dated between six months old and back as far as 2018.	We therefore recommend that Management review the bank reconciliations and ensure that any old cheques are written off. **Management response** A review of reconciling items will be undertaken in 2022/23 as part of planned improvements to routine control account reconciliations.

Controls

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

B. Follow up of prior year recommendations

We did not identify any recommendations following the audit of Herefordshire Council's 2020/21 financial statements.

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Audit fee – accrual for additional fee	143	(143)	143
PPE – Reclassification of assets – Maylords Shopping Centre	-	Dr Land and Buildings (10,161) and Cr Investment Property (10,161)	-
PPE – Reclassification of assets – Shell Store	-	Dr Land and Buildings (6,092) and Cr Investment Property (6,092)	-
PPE – Reclassification of assets – The Old Priory Offices, Leominster	-	Dr Surplus assets (619) and Cr Assets held for Sale (619)	-
PPE – Reclassification of assets – Energy from Waste Asset	-	Dr Plant and Equipment (30,200) and Cr Land and Buildings (30,200)	-
Overall impact	£143	(£143)	£143

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Related Parties We notes that the Council entered into a loan agreement with the Cyber Quarter Limited for £3.5m which had not been disclosed as a related party in the draft financial statements.	We therefore recommend that Management update the related party disclosure to include the Cyber Quarter. **Management response** The related party disclosure has been adjusted in the revised 2021/22 statement of accounts.	✓
Accounting Policies The draft financial statements included an accounting policy for extraordinary items, which is not in line with CIPFA guidance as the Council does not have any extraordinary items.	We therefore recommend that this accounting policy is removed from the financial statements. **Management response** The accounting policy has been removed from the revised 2021/22 statement of accounts.	✓
Capital Financing Requirement (CFR) We have performed the check as prescribed in the Practioners guide to capital finance in local government 2019 edition – Capital Financing Checklist Section G. There were material variances in this reconciliation which we discussed with Management. As a result of this check, we have noted variances that Management have investigated – see page 15 for further details.	We therefore recommend that the CFR is updated to show the correct disclosures. **Management response** Disclosure of the Capital Financing Requirement has been revised in Note 31: Capital Expenditure & Financing in the revised 2021/22 statement of accounts.	✓
Leases During our testing on the leases disclosure, we identified variances when testing the amounts receivable under operating leases. We have extrapolated these errors to give an indication of what the total error could be across the whole population. The total of this extrapolation is £1.4m.	We would not expect Management to amend the leases disclosure as this is a non-material extrapolated figure. However, please see recommendation around leases in Appendix A of this document. **Management response** A review of leases will be undertaken in 2022/23 to ensure disclosures are informed by complete and accurate transactions.	X

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
Audit fees Note 27 of the financial statements disclosures the non-audit fees, however £24k was in relation to an audit fee variation from 2019/20. This disclosure should therefore be updated to show the non-audit fees only.	We therefore recommend that management update note 21 to show the correct value of the non-audit fees. **Management response** To be agreed with GT.	TBC
Capital Commitments The council's capital commitment note states that -'At 31 March 2022 the council had no major capital commitments (31 March 2021 £2.3m John Kyrle High School (academy) to complete the New Permanent Accommodation project).' However, this does not clarify what the council considers as major commitments.	We have therefore recommended that Management disclose the value of what it considers significant capital commitments. **Management response** Disclosure of the value of significant capital commitments has been included in the revised 2021/22 statement of accounts.	✓
Financial Instruments The figure stated for interest payable for borrowings is stated at £5.1m, however during the audit we noted that this should be £5.4m.	We have therefore recommended that Management update the figure in the disclosure so that this is correct. **Management response** Disclosure of interest payable has been adjusted in the revised 2021/22 statement of accounts.	✓
Dedicated Schools Grant (DSG) The figure stated in the financial statements has not been split into Central Expenditure and Individual Schools Budget.	We have therefore recommended that Management enhance the disclosure within the note to split the figures into the correct categories. **Management response** The disclosure has been updated to note the split of Central Expenditure and Individual Schools Budget in the revised 2021/22 statement of accounts.	✓
Pooled Budgets Within the Pooled Budgets disclose relating to 'Covid-19 Hospital Discharge Scheme' the value stated for the Council's share is stated at £3.1m. During our audit, we have noted that this figure should be £2.6m	We have therefore recommended that Management update the disclosure to show the correct value of the Council's share. **Management response** The disclosure has been adjusted in the revised 2021/22 statement of accounts.	✓

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
Expenditure Funding Analysis (EFA) During the audit, several adjustments were noted within the EFA note. These are shown below: Adjustment to the EFA: - Total surplus / deficit – amended from £27m to £8.6m - Total adjustment between funding and accounting basis – amended from £41.7m to £16.4m - Net expenditure in CIES – amended from £14.7m to £7.8m Adjustment to note 1 to the EFA: - Total adjusted from £45m to £16.1m (It includes changes in Other operating expenditure - Revaluations from (27.7m) to (0.6m) , Capital grants from (17.1m) to (18.2m) and other smaller adjustments leading to adjustment in total from (45m) to (16.1m)). Adjustment to note 2 to the EFA: - Total adjusted from £10.6m to £14.3m (It includes changes in Other operating expenditure - Recharges & Other Movements from (7.9m) to (11.2m) and changes in Net cost of services from 9m to 8.6m).	We have therefore recommended that Management update the EFA notes to show the correct values. Management response The amendments required to the disclosure of entries in the EFA result from adjustments identified to reclassify the council's energy from waste asset and our review of the classification of investment properties and land and building assets in 2021/22 which have a corresponding impact on entries in the Comprehensive Income & Expenditure Statement. All identified adjustments have been amended in the revised 2021/22 statement of accounts.	✓
General disclosure updates Various other minor disclosure updates were made to the financial statements to improve readability or correct more trivial findings.	We have therefore recommended that Management update the financial statements to take into account the general disclosure updates. Management response The revised 2021/22 statement of accounts have been amended to reflect all agreed disclosure and presentational adjustments.	✓

C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
Movement in Reserves Statement (MIRS) During the audit we noted several adjustments required in MIRS notes. MIRS summary - Surplus/deficit on provision of services-was (14.7m) changed to (7.8m) - Other CIES (Unusable reserves) changed from (32.1m) to (38.9m) - Total Adjustment between funding and accounting basis - was 23.3m changed to 16.4m - Total Usable reserves changed from 23.1m to 16.3m Movement in Usable Reserve Analysis - Surplus/deficit on provision of services-was (14.7m) changed to (7.8m) - Impairment / downwards revaluation - was 13.7m changed to 6.9m - Application of Long-Term Debtor capital related receipts - was NIL changed to (1.6m) - Capital Financed by Receipts - was 3.2m changed to 4.8 m - The above adjustments leads to a net movement of £0.1m. Movement in Unusable Reserve Analysis - Impairment / downwards revaluation - was (3.7m) changed to (6.9m) - Application of Long-Term Debtor capital related receipts - was NIL changed to 1.6m - Capital Financed by Receipts -was (3.2m) changed to (4.8 m) - Net movement on Revaluation Reserve - was (7m) changed to (14.2 m). - The above adjustments leads to a net movement of nil.	We have therefore recommended that Management update the MIRS statement to correct the entries. **Management response** The amendments required to the disclosure of entries in the MIRS result from adjustments identified to reclassify the council's energy from waste asset and our review of the classification of investment properties and land and building assets in 2021/22 which have a corresponding impact on entries in the Comprehensive Income & Expenditure Statement. All identified adjustments have been amended in the revised 2021/22 statement of accounts.	✓
General disclosure updates Various other minor disclosure updates were made to the financial statements to improve readability or correct more trivial findings.	We have therefore recommended that Management update the financial statements to take into account the general disclosure updates. **Management response** The revised 2021/22 statement of accounts have been amended to reflect all agreed disclosure and presentational adjustments.	✓

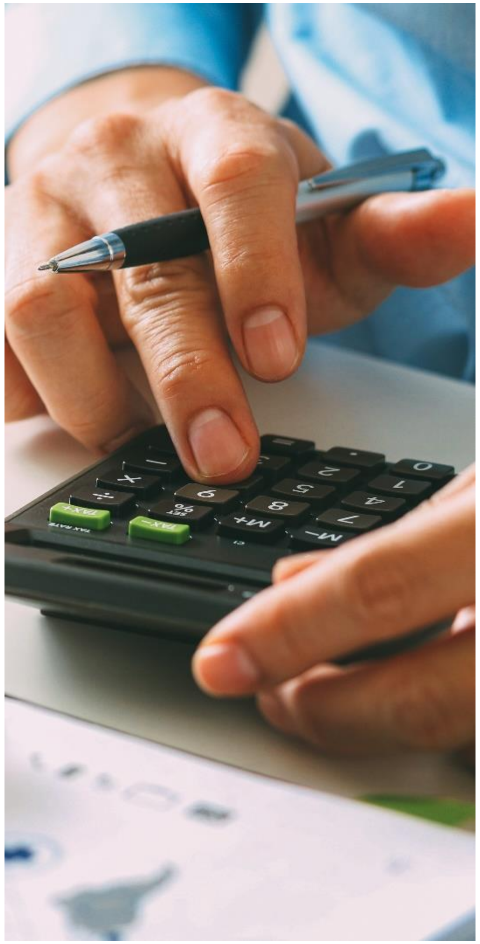
C. Audit Adjustments

Misclassification and disclosure changes - continued

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

Disclosure omission	Auditor recommendations	Adjusted?
Cash Flow Statement There were several adjustments noted in the Cash Flow Statement Cashflow - Net (surplus) or deficit on the provision of services - changed from (14.7) to (7.8) - Adjust net (surplus) or deficit on the provision of services for non-cash movements-changed from (32.1m) from (39m) - The above two adjustments lead to a total movement of nil. Operating Activities - Net movement in Creditors changed from 1.9m to 3.2m - Depreciation, amortisation and impairment of non-current assets - changed from (1.6m) to (9.9m) - Total of operating activities changed from (32.1) m to (39m) Financing Activities - Total changed from 0.8m to 0.4 m(Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts)	We have therefore recommended that Management update the Cash Flow Statement statement to correct the entries. **Management response** The amendments required to the disclosure of entries in the Cash Flow Statement have resulted from adjustments identified to reclassify the council's energy from waste asset and our review of the classification of investment properties and land and building assets in 2021/22 which have a corresponding impact on entries in the Comprehensive Income & Expenditure Statement. All identified adjustments have been amended in the revised 2021/22 statement of accounts.	✓
Officers Remuneration The following adjustments were noted during the audit: Director for Children and Families - Salary, Fees & Allowances - Adjustment of £11k (from £11k to £22k) - Reclassification of contractual payments - Adjustment of £11k (from £44k to £33k) Corresponding adjustment needs to be made in Note 26 Termination Benefits For £40,001 - £60,000, the Total cost of exit packages in each band should be adjusted by £11k (from £44k to £33k)	We have therefore recommended that Management update the disclosure to correct the entries. **Management response** The revised 2021/22 statement of accounts have been amended to reflect all agreed disclosure and presentational adjustments.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

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

No unadjusted misstatement have been noted for 2021/22.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000	Reason for not adjusting
PPE revaluation – during the audit we noted that incorrect build costs had been used in the valuation of one asset by the valuer.	-	Dr Revaluation Reserve £0.096m Cr Land and Buildings £0.096m	-	Not material
Overall impact	-	-	-	

D. Fees

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

Audit fees	Proposed fee	Final fee
Scale fee	101,792	TBC
Additional proposed fee	77,875	TBC
Total audit fees (excluding VAT)*	£179,667	TBC

* See next page for a breakdown.

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

The fees reconcile to the financial statements.

Audit fees – detailed analysis

Scale fee published by PSAA	£101,792
Ongoing increases to scale fee	
Group accounts	£3,750
Increased challenge	£3,125
PPE Valuation	£750
Pensions IAS19	£750
PPE Valuation – first time use of auditor's expert	£5,000
Additional VFM	£40,000
Impact of ISA540	£6,000
Journals / Grants testing	£7,000
Local risk factors	£5,000
Additional review	£1,500
Infrastructure Assets	£5,000
Total audit fees (excluding VAT)	**£179,667**

E. Audit opinion

Our audit opinion will be drafted at the conclusion of the audit.

F. Management Letter of Representation

Our letter of representation will be drafted at the conclusion of the audit.

G. Value for Money – Delay letter

The letter below was issued to the Chair of the Governance and Audit Committee on 28th September 2022.

Dear Nigel

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 January 2023.

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