

Herefordshire Council Audit Progress Report and Sector Update

2022/23 and 2023/24

19 January 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority 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.

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Introduction

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress

Changes to the audit team

Due to rotational requirements elsewhere, Peter Barber will be rotating off the Herefordshire Council audit following the conclusion of the 2022/23 cycle. Grace Hawkins will be taking over as the Council's appointed auditor with effect from 2023/24. Peter will support Grace in the transition ensuring cumulative audit knowledge is not lost.

Financial Statements Audit

We issued an unqualified opinion on the Council's 2022/23 financial statements on the 25 October 2023.

Our planning work for 2023/24 is now underway and we will look to issue our 2023/24 Audit Plan, setting out our approach to discharging our responsibilities in April 2024.

The deadline for drafting the 2023/24 financial statements is 31 May 2024 and conversations with finance officers indicate that they anticipate this earlier deadline being achieved.

Given the timely completion of prior year audits we will look to prioritise the 2023/24 Herefordshire Council audit, and the post-statements visit is currently scheduled for phase 1 of our delivery plan commencing in late June/early July 2024.

Value for Money (VFM)

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

The National Audit Office (NAO) have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN 03 and issue their Auditor's Annual Report when their work is complete.

For 2022/23 audits, the NAO have confirmed that where the Auditor's Annual Report cannot be issued by 30 September it should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

Our 2022/23 VFM work is now complete and the 2022/23 Auditors Annual Report, setting out the findings of our work in this area is a separate item on the January 2024 Audit and Governance Committee agenda.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report</p>	June 2023	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the October Audit Committee.</p>	October 2023	Completed
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	October 2023	Completed
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	January 2024	Issued in January
2023/24 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2023/24 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report</p>	April 2024	On track

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

an agreed approach to dealing with the backlog of local government audits

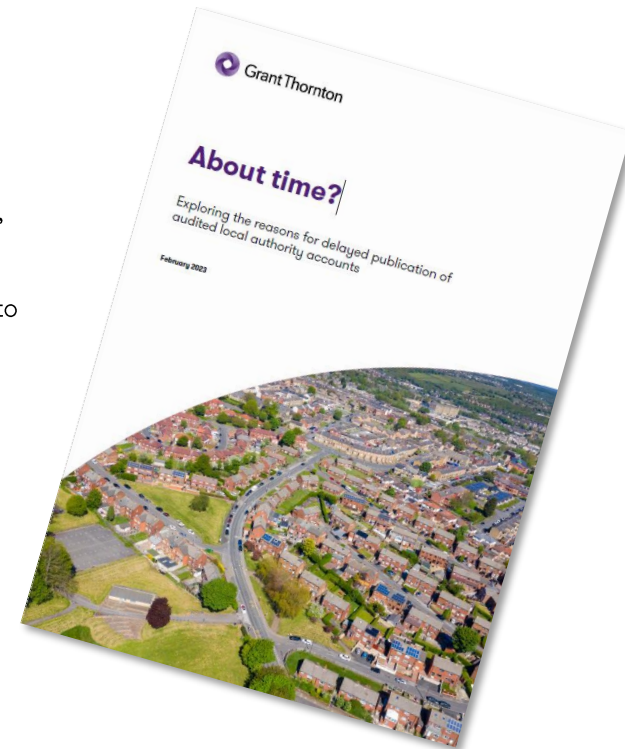
Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton](#)



Current local audit deadline ‘unachievable’- Grant Thornton

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

“Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies,” the firm said.

In certain instances, audits are open as far back as 2017-18.

“Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

“This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable.”



Current local audit deadline ‘unachievable’- Grant Thornton(cont.)

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show “significant failures in financial reporting and an unwillingness to improve”.

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

“Unfortunately, the quality of too many financial statements and working papers are not adequate,” Grant Thornton said.

“Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.”

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/



DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines [for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice](#).

[Legislative change may also be needed](#) to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/



Call for sanctions for late accounts amid fears of ‘more Wokings - public accounts committee (PAC)

The Commons’ public accounts committee (PAC) published a report, [Timeliness of local auditor reporting](#), which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.



Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

<https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/>

The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read the full report here

<https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/>



LGPS valuation gives ‘cause for optimism’ – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia’s invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a [report](#).

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: “Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

“While the good news is welcome, the hard work doesn’t stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025.”

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased “across the board” in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

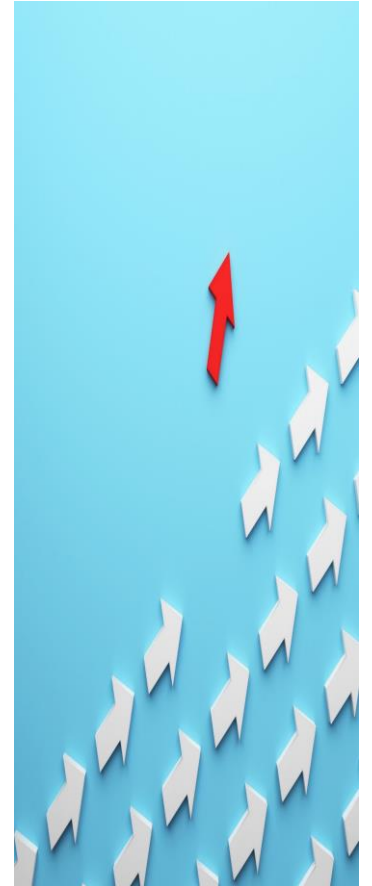
Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

“This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a ‘deficit working group’ and the significant market events that the LGPS has had to navigate in recent years.”

“Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade.”

Read the full report here

[LGPS 2022 Valuation - the big picture.pdf \[hymans.co.uk\]](#)



Sustainability reporting in the public sector - CIPFA

CIPFA said, 'Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.'

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development, said CIPFA.

CIPFA report states, 'the answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.'

Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read the full report from CIPFA here

[Sustainability Reporting \[cipfa.org\]](https://www.cipfa.org)

