

# Herefordshire Council

Audit progress report and sector updates

June 2024



# Contents

Section	Page
Introduction	03
Progress at May 2024	04
Audit Deliverables	07
Sector Update	12

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Introduction

## Your key Grant Thornton team members are:

### Grace Hawkins (Incoming)

Key Audit Partner

T 0292 034 7542

E Grace.E.Hawkins@uk.gt.com

### Roz Apperley (Outgoing)

Audit Manager

T 0117 305 7810

E Roz.E.Apperley@uk.gt.com

### Cathy Smith (Incoming)

Audit Manager

T 0141 223 0657

E Cathy.Smith@uk.gt.com

### Tsitsi Ganga

Audit In-Charge

T 0117 305 7772

E Tsitsi.Ganga@uk.gt.com

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
- a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

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/industries/public-sector/local-government/>

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 at May 2024

## Financial Statements Audit

We have undertaken our interim audit work in March 2024. This work included performing our initial risk assessment and planning work in preparation for the final audit stage in late June – September 2024. As part of our interim audit work, we have not identified any matters to report to you today.

## Value for Money

Our ambition is to then complete all 2023/24 value for money audit reviews by 31 December 2024.

From current trends around inflation, employee cost pressures and service demand, we anticipate that risks around financial sustainability and reserves will require consideration across most local government value for money reviews both for 2023/24. Arrangements for governance and improving economy, efficiency and effectiveness will also be reviewed. The current estimated financial trajectory of the sector is shown within the sector update in this report.

## Team Changes

At the March Audit and Governance committee there was discussion around how Grant Thornton planned to deliver the audit and what Grant Thorntons plans were to find a replacement audit manager. Following the committee we can confirm that Cathy Smith will be acting as the audit manager for the 2023/24 final accounts work.

## Other areas

### Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work is outstanding for the years from 2020/21 to 2023/24. 2020/21 work is in progress, work relating to the financial years after this has not yet commenced.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in February 2024, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

## Audit Fees

PSAA have published their scale fees for 23/24 [2023/24 auditor appointments and audit fee scale – PSAA](#).

For Herefordshire Council these fees are £356,839 for the Council audit. These fees are derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.

# Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date*	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.</p>	March 2024	Completed
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the Audit and Governance Committee.</p>	September 2024	Not yet due
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	September 2024	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	December 2024	Not yet due

\*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period. However, our expectations is to complete all necessary work by 31/12/2024

# Audit Deliverables

Below are some of the audit related deliverables.

---

## Audit related deliverables

## Status

### Housing Benefit Subsidy – certification

This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.

In line with our March Audit Plan work is outstanding for four years from 2020/21 to 2023/24.

2020/21 - In progress

2021/22 – Not yet started

2022/23 – Not yet started

2023/24 – Not yet started

---

\*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period.

# Audit fees

	Proposed fee 2023/24
Herefordshire Council Audit	£344,289
ISA 315	£12,550
Total audit fees (excluding VAT)	£356,839*

\*IFRS 16 adoption – As set out on page 26, IFRS 16 will need to be implemented by local authorities from 1 April 2024. The impact of this change will require disclosure in the 2023/24 statements and may necessitate further audit procedures. The impact on our fee of any additional audit work undertaken will be considered at the conclusion of the audit.

## Previous year

In 2022/23 the scale fee set by PSAA was £106,417. In the March Audit Plan, we communicated that the actual fee due to be charged for the audit subject to PSAA approval was £159,042, we can confirm that the final fee approved by PSAA for 2022/23 was £157,417.

## Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \[revised 2019\]](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

## **Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)**

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

## **Step 2 - Further Reminder (within two weeks of deadline)**

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

## **Step 3 - Escalation to Chief Executive (within one month of deadline)**

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

## **Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)**

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

## **Step 5 – Consider use of wider powers (within two months of deadline)**

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.



# Addressing the local audit backlog - consultation

## Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

**Phase 1: Reset** involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

**Phase 2: Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

**Phase 3: Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - [Consultations on measures to address local audit delays \[frc.org.uk\]](https://www.frc.org.uk/consultations)
- DLUHC landing page - [Addressing the local audit backlog in England: Consultation - GOV.UK \[www.gov.uk\]](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england)
- NAO landing page - [Code of Audit Practice Consultation - National Audit Office \[NAO\]](https://www.nao.org.uk/consultations/code-of-audit-practice)

## Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

# Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – ‘true and fair’)
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

## Next steps

We await the government’s response to the consultation. We will discuss next steps including any implications for your audit once we have further information.

# 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 show the current estimated financial trajectory of the sector and 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:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

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

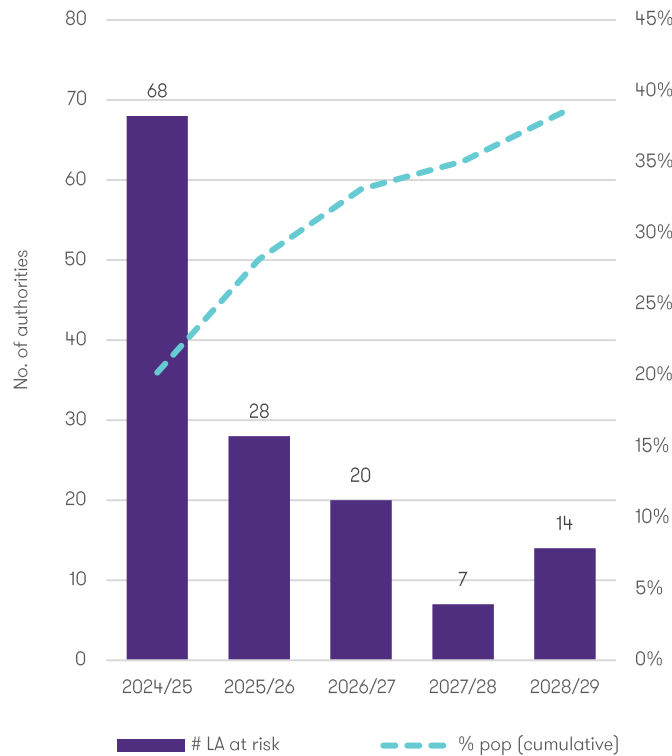
Local  
government

# The financial trajectory of the sector

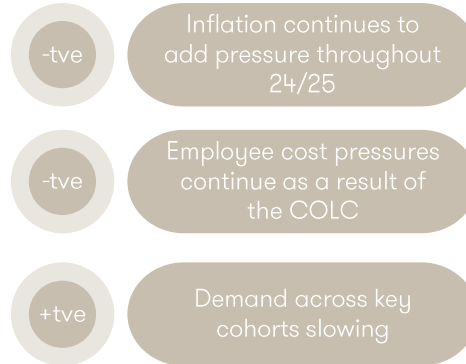
This is taken from the Grant Thornton/CIPFA Financial Foresight model, which provides long-term forecasts (revenue income and expenditure) for all councils in England. These forecasts are based on multiple assumptions relating to financial, demographic and economic factors. Councils at risk are defined by the level of usable reserves being less than 5% of net revenue expenditure.

The year at risk graph on the left represents the most recent update of the assumptions including the impact of the Autumn Statement and draft 2024/25 finance settlement. The graph on the right provides the position before this most recent update. This highlights that the year at risk for many councils has moved forward to 2024/25. The graph at the bottom of the page highlights the forecast depletion of reserves nationally, as councils manage ongoing financial pressures.

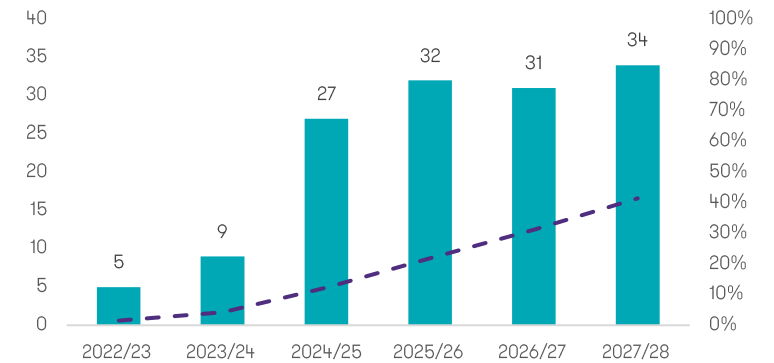
**Year at risk (based on Jan 2024 forecast)**



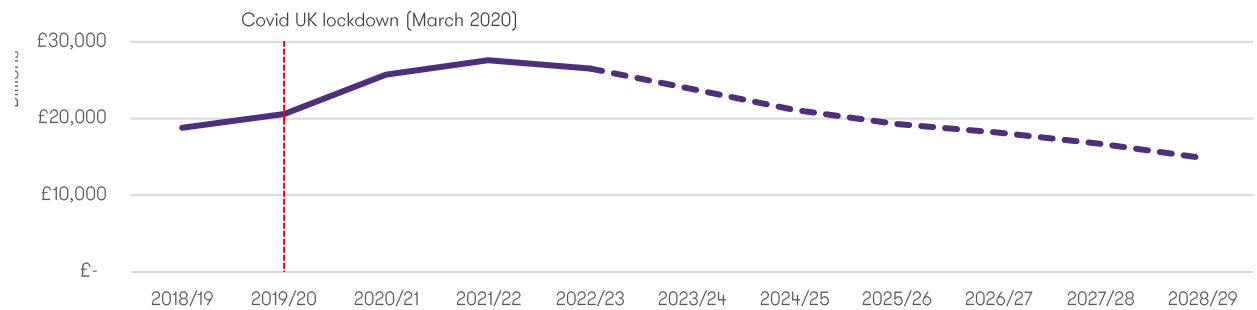
**Assumptions**



**Year at risk (Historic Position)**



**Level of reserves**



Source: Financial Foresight (Grant Thornton and CIPFA)

# Addressing the delay in local audit

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November 2022. There has not been a significant improvement since, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

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

Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

On 8th February 2024, DLUHC and the NAO both issued consultations on measures to address the delay in local audit. Consultations are open until 7th March 2024 and relate to:

- DLUHC - changes to the Accounts and Audit Regulations 2015 to introduce a backstop date of 30 September 2024 for the publication of audited accounts up to and including 2022/23, and a series of future backstop dates covering the remainder of the PSAA appointment period; and

- NAO - changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.

The FRC, as shadow system leader, is facilitating the consultations. CIPFA/LASAAC are expected to go live on their proposals for time limited changes to the Financial Reporting Code for English bodies shortly.

**To have your say**, navigate to the consultations here:

The DLUHC landing page is here - [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](#)

The NAO landing page is here - [Code of Audit Practice Consultation - National Audit Office \(NAO\)](#)



# Grant Thornton report: preventing failure in local government

Grant Thornton's December 2023 report Preventing Failure in Local Government offers prescriptions for remedies to support better health across the local government sector. The report looks at the opportunities that councils and their key internal and external players have to prevent failure, noting that the chain (of good governance) is only as strong as its weakest link.

The Audit Committee is listed as one of the key internal bodies with a role to play in preventing failure, along with the Executive, the Overview and Scrutiny Committee and the golden triangle of Chief Executive Officer; Finance Director; and Monitoring Officer. **Opportunities for the Audit Committee to make a difference surround:**

- focusing on risk management alone (not having multiple roles);
- independence (having an independent chair and at least one independent member);
- specialist training and support for members of the committee;
- direction over internal audit (setting the standard for strategic risk focus and timeliness); and
- curiosity and asking the right questions.

Sharing the Auditor's Annual Report with full council is also listed as important. The challenge for Audit Committees will be not only to maximise their own opportunities to prevent failure, but knowing the right questions to ask about whether the Executive and other committees and the three key statutory officers are making the most of their opportunities as well.

For insight into effective questions to ask, read the full report from Grant Thornton here: [How can further local authority failures be prevented? \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)



# Mitigating financial distress in Local Authorities

On 29th January 2024, a report by the Levelling Up, Housing and Communities Committee highlighted that in the last six years, eight local authorities have issued a section 114 notice, whereas none had done so in the eighteen years before that.

Income related issues were highlighted in the report around the below-inflation cap on increasing council tax rates (referendum thresholds) and formulaic weaknesses with the business rates retention scheme. Council tax especially was singled-out as regressive, long overdue for reform, and contributing to a disproportionately negative impact on funding levels in the most deprived areas of the country.

Expenditure related issues were listed in the report as surrounding social care; special educational needs and disabilities; and homelessness. The report highlighted that for children's social care, even the Competition and Markets Authority has recognised that the level of competition in the market is "not working as well as it should be" at maintaining prices at reasonable levels for local authority purchasers.

The report shows that nearly one in five Leaders and Chief Executives of other local authorities who have not already issued a s114 notice do assess themselves as being at "tipping point" due to lack of funding.

Whilst most of the recommendations in the report are aimed at Government, there are some **key takeaways for local authorities while they wait for any change that may come:**

- have we set Council Tax at the highest level possible without a referendum? Future changes could see referendum thresholds increased or removed. Are Councils doing all they can now to maximise this source of income?
- are we collaborating as effectively as we can with other local authorities to influence market prices for the services we buy in?

For insight into effective questions that Audit Committees can ask, read the full report here [\\*Financial distress in local authorities \(parliament.uk\)](https://www.parliament.uk/resources/reports/financial-distress-in-local-authorities)



# Learning from the Office for Local Government

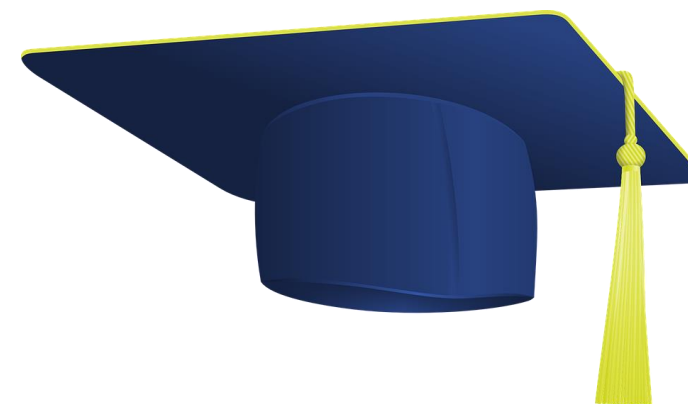
On 15th February 2024, the Secretary of State for Levelling up, Housing and Communities set out, in an open letter to the Chief Executive of Oflog, the strategic remit for Oflog for the financial years 2024 to 2027, and the Office's priorities for the financial year 2024/25. The priorities are to:

- inform;
- warn;
- support; and
- engage.

Using the new Local Authority data explorer tool (launched in July 2023), the Office can currently use metrics on waste management, planning, adult social care, roads, adult skills and corporate/ finance to compare any one authority with the English median, CIPFA nearest neighbours and trends over time. The Office is expected to develop a new early warning system to identify local authorities that are at risk of serious failure (but have not raised the alarm themselves) and to conduct 'early warning conversations' with local authorities at risk. It will be also be offering a programme of webinars to share best practice between local authorities, and to help improve performance, productivity and value for money.

Local Authorities and their members can familiarise themselves now with the data explorer metrics already publicly available. **Challenge questions for Audit Committees to ask include:**

- are the metrics consistent with our own benchmarking?
- are we showing early warning signs?
- what arrangements will we be making to make best use of the learning that will be on offer?



For a full copy of the remit letter and for access to data explorer metrics for your Local Authority see here:

[Remit letter from DLUHC Secretary of State to the Oflog Chief Executive - GOV.UK \[www.gov.uk\]](#)  
[About - Local Authority Data Explorer](#)



# New workbook to support councillors in their work on community leadership

On 8<sup>th</sup> February 2024, the Local Government Association published a new workbook for Councillors, covering community leadership.

Effective community leadership matters because communities that are engaged tend to have happier, healthier people and lower levels of crime and anti-social behaviour. Declining voting and increased social detachments from local areas are also a concern. Councillors are in the unique position of being able to interface between citizens and the council and demonstrate directly what they have achieved for the people they represent.

The workbook shows that for effective community leadership, councillors need to:

- listen to and involve their local communities;
- build vision and direction;
- work effectively with partners;
- make things happen;
- stand up for communities;
- empower communities;
- be accountable; and
- use resources effectively.

With challenge questions; case studies; guidance, hints and tips; and a dedicated section for the opposition, the workbook makes for interesting reading for any councillor – new or already established.

[A councillor's workbook on community leadership | Local Government Association](#)



# Making the most of levelling-up funds to local government

In November 2023, the National Audit Office published its report on whether the Department for Levelling Up, Housing and Communities' levelling up funds are likely to deliver value for money. The three significant funds are the Towns Fund (Town Deals and Future High Streets Fund programmes); the Levelling Up Fund (local priorities with a visible impact); and the UK Shared Prosperity Fund (to increase life chances and build pride in place). Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. However, less than half of the monies given to local places across the three schemes by 31 March 2023 had been spent. Because under current arrangements the funds are time limited, there is a risk that some projects may never be started and others, in the haste to complete, may include sub-optimal decisions.

Many of the delay factors are beyond Local Authorities' control: Rising costs, skills shortages and supply issues in the construction industry. However, the report does highlight that there are things Local Authorities can do to help with unblocking.

## Key questions that Audit Committees can ask are:

- do we know which of our projects are on track and which are at risk?
- have all projects got their main contractor in place?
- has full advantage been taken of the ability to move money between sub-projects within individual bids?
- is advantage being taken of the ability to make changes to the scope and scale of projects without seeking approval if the changes do not exceed a 30% threshold?
- are projects being prioritized? So that those that can complete to time, do complete to time?

For the full report and an insight into wider recommendations for the Department, see [\\*Levelling up funding to local government \(nao.org.uk\)](https://nao.org.uk)

<b>£10.6bn</b>	total amount announced through the Towns Fund, Levelling up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020–21 and 2025–26
<b>£9.5bn</b>	the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026
<b>£2.0bn</b>	the amount DLUHC has given to local places so far across the three funds at 31 March 2023
<b>£0.9bn</b>	the amount spent by local places at 31 March 2023



© 2024 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.