

Title of report: **External Auditor's Annual Report 2023/24**

Meeting: Audit and Governance Committee

Meeting date: Wednesday 18 September 2024

Report by: Director of Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

All Wards

Purpose

To present to the Audit and Governance Committee the External Auditor's Annual Report 2023/24 for information and discussion.

Recommendation(s)

That:

- a) **The committee reviews the external auditor's report, notes its findings and recommendations and considers the management responses.**

Alternative options

1. There are no alternative recommendations. The auditor's Annual Report forms part of the statutory external audit of the Council.

Key considerations

2. The external auditor's draft Annual Report for 2023/24 is attached at Appendix 1. Under the National Audit Office Code of Audit Practice, the external auditor is required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. The Annual Audit Report looks back over the 2023/24 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2023/24 audit.

3. As well as reporting on overall arrangements, the external auditor has considered whether there were any significant risks or weaknesses in the arrangements in place. The report includes the external auditor's findings together with their recommendations as to how any weaknesses identified can be addressed.
4. Across the public and private sectors, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting and the requirement for auditors to demonstrate increased scepticism and challenge; to undertake additional and more robust testing referred to as 'raising the quality bar' of audit.
5. The report focuses on the arrangements in place during the financial year ended 31 March 2024 under three key themes: financial sustainability, governance and improving economy, efficiency and effectiveness in the use of resources. Improvements noted across these themes during 2023/24 are summarised on pages 3 and 4 of the report.

Financial Sustainability

6. The auditor's work considers the council's arrangements to identify risks to financial resilience, financial pressures and funding gaps as well as the robustness of financial planning and monitoring activity to support strategic priorities.
7. In this area, the report notes that there are no significant weaknesses in arrangements; with appropriate arrangements for identifying, monitoring and reporting on savings. The auditor's work included a review of budget setting arrangements, testing the detailed calculation and evidence in respect of 75% of the proposed saving schemes, to confirm the 2024/25 budget is based on realistic assumptions in key areas.
8. Testing of financial sustainability confirms that the council's financial planning identifies and manages key pressures and risks to financial resilience and the council's budget is consistent with other organisational plans.
9. Additional work was undertaken to understand the drivers of overspend in Children's Services to determine whether expenditure assumptions are realistic. This review confirms that the council:
 - a. recognises financial pressures and has included additional funding in the 2024/25 budget;
 - b. is taking steps to reduce costs whilst ensuring placements are safe and appropriate; and
 - c. has set a budget for Children's Services for 2024/25 which is based on realistic assumptions.

Governance

10. The auditor's work considers how the council monitors and assesses risk, gains assurance over the effectiveness of internal controls and how the council makes properly informed decisions, supported by appropriate evidence to allow for challenge and transparency.
11. In this area, the report notes that there are no significant weaknesses in the council's governance arrangements for ensuring that it makes informed decisions and properly manages risks. There are sound arrangements in place, including internal audit and counter fraud and to ensure appropriate behaviours and standards.
12. Improvement recommendations, informed by best practice, have been made in respect of the frequency of risk reporting arrangements and tender waivers to Audit & Governance Committee and Cabinet.

Improving economy, efficiency and effectiveness in the use of resources

13. The auditor's work considers how the council uses financial and performance information to identify areas for improvement and evaluate service delivery, stakeholder engagement and expected benefits from commissioning and procurement activity.
14. In this area, one significant weakness remains in respect of improvement in children's services and a key recommendation has been included at page 7 of the report. The report also notes improvements in contract management arrangements, confirming there are appropriate arrangements in place for reviewing the cost effectiveness of services and assessing performance to identify areas for improvement.
15. The improvement of children's services remains a key priority for the council and work continues with the Department for Education, the appointed Commissioner for Children's Services and its improvement partner, Leeds City Council, to address required transformation and improvement.

Community impact

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

Environmental Impact

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

Equality duty

19. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
A public authority must, in the exercise of its functions, have due regard to the need to –
 - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
20. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of

services. As this document relates to presenting a report for information, we do not believe that it will have an impact on our equality duty.

Resource implications

21. There are no specific resource implications from the report itself. However, there may be resource implications from implementing specific recommendations. If these cannot be contained within approved budgets, then a specific decision will be presented for approval.

Legal implications

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

Risk management

23. Specific risks are included within the external auditor's report.

Consultees

24. None.

Appendices

Appendix 1 Auditor's Annual Report on Herefordshire Council 2023/24

Background papers

None identified.