Appendix 1

Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated 17 September 2024

The Audit Findings (ISA260) Report for Herefordshire Council

Year ended 31 March 2024

25 September 2024

Herefordshire Council

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25 September 2024

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Dear members of the Audit and Governance Committee

Audit Findings for Herefordshire Council for the year ended 31 March 2024

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 and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Governance Committee.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grace Hawkins

Director
For Grant Thornton UK LLP

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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 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.

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 2024 for the attention of 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 consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed remotely during June-September as planned. Our findings are summarised on pages 9 to 18. We have identified adjustments to the financial statements that are outlined in Appendix D of this report. We have also raised recommendations for management as a result of our audit work. These are set out at Appendix B. Our follow up of recommendations from the prior year's audit are detailed at Appendix C.

Our work is substantially complete and currently there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements. However, this is subject to the following outstanding matters;

- Completed work is being subject to manager, engagement leader and quality partner review and completion of work is being finalised as part of that process,
- We are reviewing the response from our external valuer for the waste asset, which is shared with Worcestershire Council,
- We are waiting on assurances from the auditor of the pension fund,
- We are finalising the technical reporting 'hot review' and ethics review process,
- Receipt and review of final financial statements and signed management letter of representation.

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

Our anticipated financial statements audit report opinion will be unmodified.

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 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

Our work on the Council's value for money (VFM) arrangements will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).

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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

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

1. Headlines

National context – audit backlog

Consultation

The Ministry for Housing, Communities and Local Government (MHCLG), 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:

- Consultations on measures to address local audit delays (frc.org.uk)
- Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- Code of Audit Practice Consultation - National Audit Office (NAO)

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. The timing of the general election has delayed the implementation of these proposals.

Recent update

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament Written statements - Written questions, answers and statements - UK Parliament This confirms the government's intention to introduce a backstop date for English local authority audits up to 2022/23 of 13 December 2024. A backstop date for 2023/24 will be introduced of 28 February 2025. The audit of Herefordshire Council is expected to sign by 30 September 2024 and therefore will be unaffected by the backstop.

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 and the Audit and Governance Committee.

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
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- 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 had to alter our audit plan, as communicated to you on 12 March 2024, to reflect a change in audit categorisation. Upon receipt of the draft financial statements, we identified that the Council's expenditure has now risen above £500m for the first time. As a result, this has changed our assessment of the audit risk and the Council is now classified as a major local audit (MLA). The practical changes to our audit approach is as follows:

- Materiality has now been capped at 1.5% of gross expenditure (reduced from 2%);
- We are required to engage an additional review partner from Grant Thornton, known as and Engagement Quality Control Reviewer (EQCR);
- We are required to engage our financial reporting team to carry out a 'hot review' of the draft financial statements. This will now take place every other year.
- We are required to engage an auditor's valuation expert to review elements of the investment property and property, plant & equipment valuations.

In addition to the alterations resulting from the change in audit categorisation, the draft financial statements showed that, for the first time, the Council had recognised a net pension asset position. Additional work was required to assess the accounting for this asset.

Conclusion

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

- Completed work is being subject to manager, engagement leader and quality partner review and completion of work is being finalised as part of that process,
- We are reviewing the response from our external valuer for the waste asset, which is shared with Worcestershire Council,
- We are waiting on assurances from the auditor of the pension fund,
- We are finalising the technical reporting 'hot review' and ethics review process,
- Receipt and review of final financial statements and signed management letter of representation.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

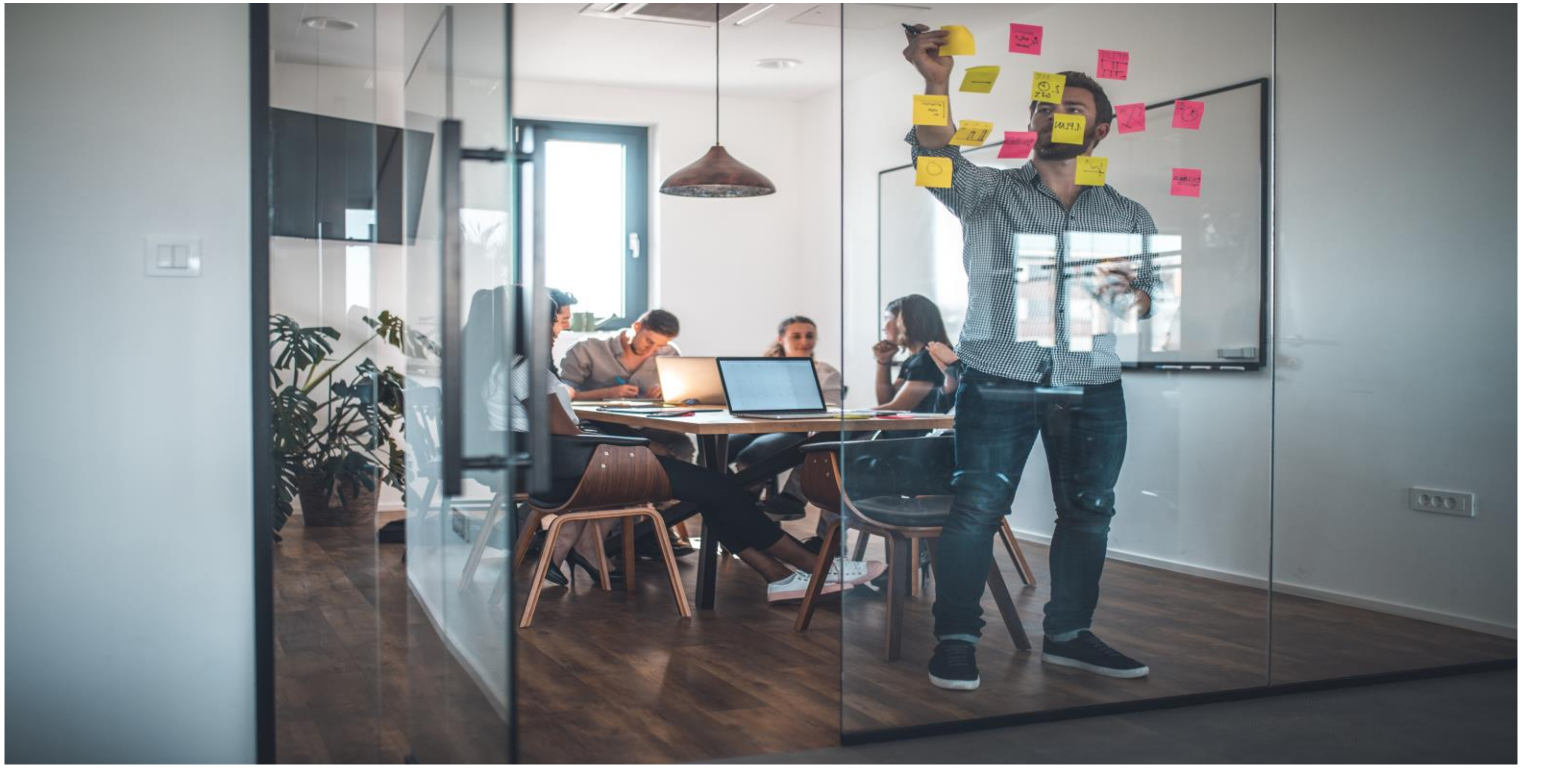
Our approach to materiality

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.

We have revised the performance materiality percentage to reflect the increased in gross expenditure to more than £500 million, resulting in a change in audit categorisation to a major local audit (MLA).

We set out in this table our determination of materiality for Herefordshire Council and its group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	7,700,000	7,600,000	Financial statement materiality is based on 1.5% of 2023/24 draft gross cost of services expenditure.
Performance materiality	5,700,000	5,700,000	Performance materiality is based on 75% of financial statement materiality.
Trivial matters	400,000	400,000	Triviality is set at 5% of financial statement materiality.
Materiality for officer's remuneration disclosures	10,000	10,000	We consider the disclosure of officers' remuneration to be a sensitive disclosure and therefore have applied a lower materiality.



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	Relevant to Council and/or Group
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk of management override of controls in all entities. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the normal course of business as a significant risk. In response to the risk highlighted in the audit plan we carried out the following work: • evaluated the design and implementation of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. **Results** Our audit work has not identified any issues in respect of management override of controls. However, we did note several control deficiencies, which are described here. 1. We noted that there is no formal review process for journals which fall below £2 million total value, or £250,000 for an individual journal line. Additionally, we noted a case where a member of the finance team had been requested to post journals without appropriate support being supplied and this was not challenged by the member of the finance team before posting the journal. Management perform monthly budget monitoring, which they believe sufficiently reduces the risk of material misstatement from journals below the authorisation limit, however there is a risk that this may be insufficient to identify inappropriate journals which could cumulatively become material. We targeted our testing towards journals which fell in the £225,000 - £250,000 range and did not identify any instances of management override of controls. *(continued overleaf)*	Group and council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Management override of controls	2. For journals posted throughout the year which fall above the £2 million/£250,000 authorisation limited, we noted that only an excel spreadsheet is maintained which summarises the journals but does not show any evidence that these have been appropriately reviewed. Management have assured us that the review takes place in practice, however without any evidence of this we have not be able to verify if that is the case. 3. We identified journals which had been posted by users who are not currently associated with the Council, and in 1 example the user has not been employed by the Council since 2012. We have been informed that the issue arises from these user accounts being associated with automatic system interface journals from the debtor and cash systems which were originally set up by those users when they were employed, but now cannot be easily updated. The user does not have any active involvement in posting the journal, so the associated user ID is arbitrary. We have verified that the journals posted by these users relate only to these automatic journals and that no other journals are associated with these user accounts. Management have assured us that the issue is being investigated by Council's IT team for resolution. Recommendations have been made in respect of these findings. These can be found on page 30.	
Valuation of land and buildings and the key assumptions and judgements that underpin this significant estimate	In accordance with the CIPFA/LASAAC Code of Practice, subsequent to initial recognition, the Council is required to hold property and property, plant and equipment (PPE) on a valuation basis. The valuation basis used depends on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. The Council employs an external valuer to undertake a rolling programme of valuations across their asset base, valuing land and buildings at least once every five years. In the intervening periods the Council carries out a desktop review to assess the material accuracy of the assets not revalued. As at 31 March 2024, the Council held PPE of £685.8 million including land and buildings of £394.5 million. Given the significant value of the land, and non-specialised buildings held by the Council, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value. We therefore focussed our audit attention on assets that had large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration and one of the most significant assessed risks of material misstatement due to error. *(continued overleaf)*	Group and council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of land and buildings and the key assumptions and judgements that underpin this significant estimate	In response to the risk highlighted in the audit plan we carried out the following work: • Engaged our own valuations expert to assess the instructions issued by the Council to their valuers, the final valuers' report and the assumptions used that underpinned the final valuations; • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to their valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness; • Challenged the key data and assumptions used by management's experts in the valuation process for a sample of these assets; • Tested a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, and the revaluations had been correctly reflected in the financial statements; and • Evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these values were not materially different to current value. Results Our work has not identified any material issues to raise in relation to the valuation of other land and buildings. However, we have identified an error resulting from the use of incorrect floor area data in the valuations. We are satisfied that the impact of this error is not material, but a recommendation has been made on page 30, and an unadjusted misstatement recorded on page 40.	Group and council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of investment properties	In accordance with the CIPFA/LASAAC Code of Practice, subsequent to initial recognition, the Council is required to hold investment properties on a valuation basis, at fair value. The Council employs an external valuer to undertake annual valuations of all investment properties. As at 31 March 2024, the Council held IP of £52.6 million. Given the significant value of the investment properties held by the Council, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation these assets. In response to the risk highlighted in the audit plan we carried out the following work: • Engaged our own valuations expert to assess the instructions issued by the Council to their valuers, the final valuers' report and the assumptions used that underpinned the final valuations; • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to their valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness; • Challenged the key data and assumptions used by management's experts in the valuation process for a sample of these assets; and • Tested a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, and the revaluations had been correctly reflected in the financial statements. Results Our work has not identified any material issues to raise in relation to the valuation of investment properties.	Group and council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of the pension fund net asset and the key assumptions that underpin this significant estimate	The Council participates in a local government pension scheme (LGPS) administered by Worcestershire County Council. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, the Council is required to recognise its share of the scheme assets and liabilities in its Balance Sheet. At 31 March 2024 the Council had funded pension fund liabilities of £572.3 million and assets of £597.7 million, which has been reduced to £564.1 million after the application of an 'asset ceiling' in line with the requirements of IFRIC 14. In addition to the net funded pension liability of £8.2 million, the Council had unfunded teachers' pension liabilities of £0.5 million. 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 Council employs Hyman Robertson as management's expert. 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). However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. 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. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in either of these two assumptions would have an approximately 1.5% effect on the liability (equivalent to £8.6 million). 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. In response to the risk highlighted in the audit plan we carried out the following work: • Evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work; *(continued overleaf)*	Group and council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of the pension fund net asset and the key assumptions that underpin this significant estimate	• Evaluated the instructions issued by management to their actuary, Hyman Robertson, for this estimate and evaluated the scope of their work; • Assessed the competence, capabilities and objectivity of the actuary in carrying out the Council's pension fund valuation; • Evaluated the assumptions made by Hyman Robertson in the calculation of the estimate, using work performed by an auditor's expert; • Evaluated the data used by management's experts in the calculation of the estimates and assessed the accuracy and completeness of the information provided by the Council to the actuary; • Obtained assurances from the auditor of the 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; • Performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations; and • Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements. • Reviewed the calculation of the IFRIC 14 asset ceiling to determine appropriateness, and considered the potential impact of IFRIC 14 on prior years. Results We are awaiting assurances from the auditor of the pension fund, and therefore no final conclusion has been drawn at this time. However, all other work relating to the valuation of the pension fund net asset has been completed, including a thorough review of the IFRIC 14 asset ceiling calculation for 2023/24. Additionally, we have sought to understand if there could be any material impact of IFRIC 14 on previous financial periods and, with the support of the Council and their actuary, we have concluded that there would not.	Group and council

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and building valuations – £394.5 million	Other land and buildings comprises £271 million of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£48 million) 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 to complete the valuation of properties as at 31 March 2024 on a five yearly cyclical basis. 80% of total assets were revalued during 2023/24. Management have considered the year end value of non-valued properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £394.5 million, a net increase of £7.2 million from £387.3 million at 31 March 2023 (being the net movement of additions, disposals, depreciation and revaluations, with £9.3 million being attributable to revaluation movements alone).	We have carried out the following work in relation to this estimate in line with the revised ISA540 requirements: • Assessed management's expert to ensure suitably qualified and independent; • Assessed the completeness and accuracy of the underlying information used to determine the estimate; • Assessed the appropriateness of any alternative site assumptions; • Assessed the impact of any changes to valuation method; and • Assessed adequacy of disclosure of estimate in the financial statements.	Green

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment property valuations – £52.6 million	The Council has engaged Wilks, Head & Eve to complete the valuation of investment properties as at 31 March 2024. 100% of total assets were revalued during 2023/24. The total year end valuation of investment property was £52.6 million, a net increase of £10.7 million from £41.9 million at 31 March 2023 (being the net movement of additions, disposals and revaluations, with £10.4 million being attributable to revaluation movements alone).	We have carried out the following work in relation to this estimate in line with the revised ISA540 requirements: • Assessed management's expert to ensure suitably qualified and independent; • Assessed the completeness and accuracy of the underlying information used to determine the estimate; • Assessed the appropriateness of any alternative site assumptions; • Assessed the impact of any changes to valuation method; and • Assessed adequacy of disclosure of estimate in the financial statements.	Green

2. Financial Statements: key judgements and estimates

Significant judgement or estimate

Net pension liability – £8.7 million

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Summary of management's approach

The Council's net pension liability at 31 March 2024 is £8.7 million (PY: £24.1 million) comprising the Worcestershire Country Council Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. The Council uses Hyman Robertson 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 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £46.1 million net actuarial gain during 2023/24.

Audit Comments

We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure they are suitably qualified and independent;
- Assessed the actuary's approach, and performed detailed work to confirm reasonableness of approach;
- Made use of PwC as auditors' expert to assess the actuary and assumptions made by the actuary – please see below;

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.80% - 4.85%	
Pension increase rate	2.8%	2.8% - 2.85%	
Salary growth	4.3%	3.3% - 3.8%	
Life expectancy – Males currently aged 45/65	21.3 / 22.6	23.7 ± 8-10 years / 22.1 ± 8-10 years	
Life expectancy – Females currently aged 45/65	23.6 / 25.5	26.4 ± 8-10 years / 24.3 ± 8-10 years	

- Assessed the completeness and accuracy of the underlying information used to determine the estimate;
- Assessed the impact of any changes to valuation method
- Assessed the reasonableness of the Council's share of LGPS pension assets and any asset ceiling consideration under IFRIC 14;
- Assessed the reasonableness of any changes in estimates; and
- Assessed the adequacy of disclosure of estimate in the financial statements.
- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Assessment

We are awaiting assurances from the auditor of the pension fund, and therefore no conclusion has been drawn at this time.

2. Financial Statements: significant professional judgments

Significant professional judgements are made by auditors during the course of the audit in order to reach conclusions on significant matters identified during the audit. We have documented below those which we feel you ought to be aware.

Significant matter	Auditors' professional judgement
The Council received £8.8 million of capital grants which were used to fund revenue expenditure (i.e. REFCUS). The Code (3.4.2.39e) requires **all** capital grants and contributions to be disclosed in the 'taxation and non-specific grant income' line in the CIES. However, the CIPFA Guidance notes for practitioners (C45) explicitly states that any grants receivable by an authority in relation to REFCUS, should be accounted for as revenue grants in the CIES. There is therefore a misalignment in the guidance derived from these two documents. The Council has followed the accounting treatment described in the practitioners' guide.	Despite there being an apparent divergence from the Code, it is our judgement that this is acceptable given that the Council has followed the guidance published by CIPFA in the guidance notes.

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

In our audit plan we identified the Academy IT application, however during our testing we concluded that there were no significant or other risk areas associated with the application and therefore we have not reported on it here. Contrarily, we identified the excel based fixed asset register to be related to the valuations of PPE and IP, which are considered significant risk areas, therefore we have performed our work on this application.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
Business World	ITGC assessment (design and implementation effectiveness only)	● (green)	● (green)	● (green)	● (green)	Management override of controls; valuation of PPE and IP; valuation of pension liability	n/a
Excel (fixed asset register)	ITGC assessment (design and implementation effectiveness only)	● (green)	● (green)	● (green)	● (green)	Valuation of PPE and IP	n/a

Assessment

- ● (red) Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● (amber) Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● (green) IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● (grey) Not in scope for testing

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 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, including specific representations in respect of the Group.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bankers, lenders and borrowers. 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	All information and explanations requested from management was provided.

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).

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:

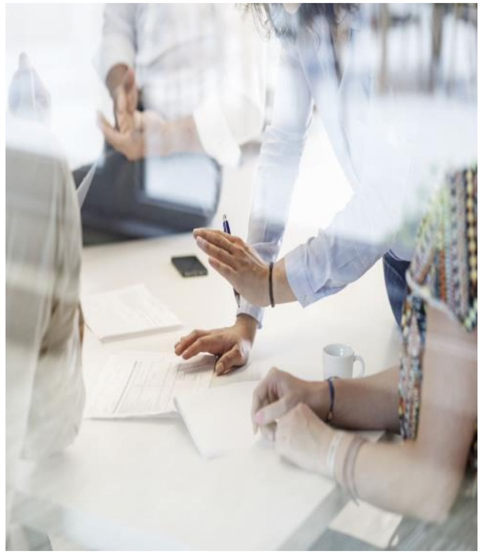
- the nature of the Council and the environment in which it operates
- the Council's financial reporting framework
- the Council's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
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. We have nothing to report on these matters.
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 and only a partial assurance statement is expected to be issued.
Certification of the closure of the audit	We intend to certify the closure of the 2023/24 audit of Herefordshire Council.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023/24

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 completed our VFM work and our detailed commentary is set out in the separate Auditor’s Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The significant weakness we identified is detailed in the table below, along with the procedures we performed and our conclusions. Our auditor’s report will make reference to this significant weakness in arrangements, as required by the Code.

Significant weakness identified	Conclusion	Outcome
Children’s Social Care Services In our 2022/23 AAR we identified a significant weakness around Children’s Social Care Services. We have therefore identified a risk of significant weakness around weather the council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. As while the council continues to make improvements in Children’s Services these are not yet sufficient for Ofsted to remove their ‘inadequate’ rating.	Whilst the Council continues to make progress in Children’s Services, this has not been sufficient for Ofsted to remove their “Inadequate” rating. This remains a significant weakness and we have repeated our key recommendation. No other recommendations raised.	The Council should continue to work with the Department for Education to improve its Children's Social Care Services. This should focus on: • Ensuring that the refreshed Improvement Plan is delivered, with regular reporting to Members. • Efficiencies made, for example, through reducing the number of agency staff and increasing permanent staff continue, in order to ensure that costs are contained within the agreed budget. • Working with other areas of the Council to ensure a holistic and joined up approach to improving services whilst remaining within the agreed financial budget.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers [and network firms]).

In this context, we disclose the following to you:

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 E.

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 Grant Thornton International Transparency report 2023.

4. Independence and ethics

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

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Group that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

4. 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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit claim	2020/21 - £51,823 2021/22 - £28,698	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 £80,521 in comparison to the total fee for the audit of £391,839 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) Management threat (because GT report to the grant paying body)	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 teachers' pension claim	2022/23 - £10,000 2023/24 - £12,500	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 £20,000 in comparison to the total fee for the audit of £391,839 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) Management threat (because GT report to the grant paying body)	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.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee.

None of the services provided are subject to contingent fees.

Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – Audit of Financial Statements

C. Follow up of prior year recommendations

D. Audit Adjustments

E. Fees and non-audit services

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations to date 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 2023/24 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
Medium	**Issue** We noted that there is no formal review process for journals which fall below £2 million total value, or £250,000 for an individual journal line. Additionally, we noted a case where a member of the finance team had been requested to post journals without appropriate support being supplied and this was not challenged by the member of the finance team before posting the journal. Management perform monthly budget monitoring, which they believe sufficiently reduces the risk of material misstatement from journals below the authorisation limit, however there is a risk that this may be insufficient to identify inappropriate journals which could cumulatively become material. We targeted our testing towards journals which fell in the £225,000 - £250,000 range and did not identify any instances of management override of controls. **Risk** Not having robust controls around the approval of journals presents a number of risks: 1. Without formal approval processes, there is a lack of accountability for the accuracy and validity of journal entries. This can lead to ambiguity regarding the individuals responsible for authorising and verifying the entries, making it difficult to assign accountability for errors or irregularities. 2. The absence of journal approval procedures can compromise the transparency and integrity of financial records. It may result in unauthorised or unverified entries being included in the accounting system, making it challenging to track and understand the origin and purpose of specific transactions. 3. Not having journals approved can create opportunities for errors, misstatements, or fraudulent activities to go undetected. It undermines the principle of segregation of duties and internal controls, increasing the risk of unauthorized or inappropriate journal entries being made without proper scrutiny. 4. Unapproved journal entries can result in inaccuracies in financial statements, potentially leading to misstated financial results and misinformed decision-making. It may also impact the organisation's ability to provide reliable and transparent financial information to stakeholders and investors.	We recommend that the Council implements a process whereby some, if not all, of the journals below the current threshold are reviewed and that evidence of this review is retained for future audits. **Management response** There are robust controls in place over the processing of journals to ensure segregation of duties with supplementary controls to ensure secondary review through routine monthly budget monitoring arrangements. This process ensures that instances of incorrect postings, at a cost centre level, are identified in a timely manner. We will review the controls in place as part of activity in 2024/25 to identify improvements.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	Issue For journals posted throughout the year which fall above the £2 million/£250,000 authorisation limited, we noted that only an excel spreadsheet is maintained which summarises the journals but does not show any evidence that these have been appropriately reviewed. Management have assured us that the review takes place in practice, however without any evidence of this we have not be able to verify if that is the case. Risk There is a risk that the expected review and approval of journals is not taking place in practice. Please see page 30 for a discussion of the risks associated with a lack of robust journals approval processes.	We recommend that the Council implements a process whereby evidence of the review of all journals above the review threshold is retained for audit. Management response We will review the controls in place as part of activity in 2024/25 to identify improvements.
Low	Issue We identified journals which had been posted by users who are not currently associated with the Council, and in 1 example the user has not been employed by the Council since 2012. We have been informed that the issue arises from these user accounts being associated with system interface journals from the debtor and cash systems and these cannot be easily updated. We have verified that the journals posted by these users do align with the explanation provided. Management have assured us that the issue is being investigated by Council's IT team for resolution. Risk There is a risk that old and out-of-date user accounts which are associated with employees who have since left the employment of the Council could be used to post inappropriate journals whether through error or fraud. These journals could also circumvent the journals approval process. Please see page 30 for a discussion of the risks associated with a lack of robust journals approval processes.	We recommend that the Council takes appropriate action to try and update the system reports and that all user accounts are immediately deleted once an employee is no longer employed by the Council. Management response We have already taken action to resolve this issue with the Business World Systems team; this represents an isolated issue linked to the original system setup; there are appropriate controls in place to ensure that system access for leavers is removed as part of the leaving process.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Issue** From our testing, we have identified several instances of the accruals concept not being appropriately applied. We note that this was identified as an issue in the prior year also, and a recommendation was made, a follow up on which is detailed in Appendix C. It appears that this remains a problem, although we are satisfied that the impact on the accounts is not currently likely to be material. **Risk** Not consistently applying the accruals concept presents a number of risks: 1. Not applying the accruals concept can result in misleading financial statements that do not accurately reflect the company's financial position and performance. This can impact the ability of stakeholders to make informed decisions. 2. Inaccurate financial reporting resulting from not applying the accruals concept can hinder effective planning and decision-making. Management relies on accurate financial information to make strategic decisions, and a lack of accrual accounting can impede this process. 3. Without the accruals concept, the valuation of assets, liabilities, and equity can be distorted, impacting the organisation's overall financial position and performance measures.	We recommend that management reviews their processes and controls surrounding the accurate application of the accruals concept to ensure that all income and expenditure is recognised in the period to which it relates. **Management response** At each year end accruals are processed to ensure that income and expenditure is accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates may be included using judgement and reasonable expectations of value. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate recording.
Medium	**Issue** We identified that incorrect floor area data had been used in the valuation of the property, plant an equipment. We are satisfied that the impact of the error is unlikely to be material however we have only reviewed a sample of assets. **Risk** There is a risk that the property, plant and equipment could be misstated as a result of using inaccurate data.	We recommend that management reviews the floor area data shared with the valuer to ensure it is accurate. **Management response** We will continue to review the floor area evidence to provide assurance over data integrity.

C. Follow up of prior year recommendations

We identified the following issues in the audit of Herefordshire Council's 2022/23 financial statements, which resulted in 4 recommendations being reported in our 2022/23 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✘	Journals testing identified that journals posted as part of close down after 21 April are not subject to the same levels of review as journals posted in year. The Council satisfied themselves over these journals through their year end quality assurance checks, however, there was no written evidence to confirm review of the individual journals therefore creating an opportunity for management override of controls. It was recommended that the Council should ensure that all journals are authorised and that an audit trail evidencing this review is maintained.	**Management response** All journals posted in period 14 (the financial accounting adjustment period) in 2023/24 were subject to line manager review and this approval was evidenced to provide an audit trail. **Auditor update** For the current year audit, we were able to obtain appropriate audit evidence for close down journals.
✘	Completeness testing identified an annual rental payment which covered both the 2022/23 and 2023/24 financial years, but the full amount had been recognised in 2022/23. This is not in accordance with the accruals basis of accounting. It was recommended that the Council ensure that amounts are accounted for in the period in which they relate in line with the accruals basis of accounting.	**Management response** Guidance in respect of income and expenditure cut off and accounting for accruals was updated in the closedown instructions issued by the council Finance Team and all Finance Staff attended training provided by Grant Thornton. We will continue to review income and expenditure around the year end to ensure transactions are recorded in the appropriate accounting period. **Auditor update** Further issues were identified as part of the 2023/24 audit in relation to accruals. Please refer to page 32 for recommendations made in respect of this issue, and page 39 for unadjusted errors identified.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Several outstanding cheques relating to Housing Benefit payments dating back between 6 months old and back as far as 2018 were included on the bank reconciliation as reconciling items. It was recommended that management review the bank reconciliations and ensure that any old cheques are written off.	**Management response** All cheques have now been reviewed and cleared. **Auditor update** From our review of the bank reconciliations, we can see that these cheques are still included and have not been written off as recommended. However, the value is trivial.
✓	Several assets held by the Council were noted as being fully depreciated. This indicates that the annual depreciation charge is overstated, and the assessed useful economic lives of the assets are not accurate. It was recommended that management ensure that useful lives are regularly reviewed to ensure they are being appropriately applied.	**Management response** A review of these assets to determine the remaining useful economic lives highlighted that the majority were due for replacement in the following year. No amendment was required in respect of the useful economic life of these assets. **Auditor update** From a review of the Council's asset register we can see that the total gross value of fully depreciated assets is immaterial. We will continue to monitor this in future audits.

Assessment

✓ Action completed

X Not yet addressed

D. 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 2024.

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000
Misstatement of grants received in advance It was identified that grants received in advance had not been separately disclosed in the balance sheet. A review identified £8.4 million misstated at 31 March 2024, £10.2 million at 31 March 2023 and £11.4 million at 31 March 2022. The accounts have been updated to reflect the correct position.	-	£8.4 million	-	-
Overall impact	-	£8.4 million	-	-

D. Audit Adjustments (continued)

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 issue/Omission	Auditor recommendations	Adjusted?
Note 13. Grant income The grant income note incorrectly included balances for council tax income and non-domestic rates income, which are not classified as grant income.	Adjustment recommended to remove those two lines from Note 13.	✓
Note 22. Short term debtors Both the current and prior year disclosures have been made with the full bad debt provision netted off against 'Other receivables' despite a portion of the provisions relating to debtors which are disclosed separately (e.g. council tax provision has not been shown against the council tax debtor). The total value of provisions which have been incorrectly shown against 'Other receivables' is ~£8 million, with this split mainly across trade receivables, NNDR and council tax.	Adjustment recommended to appropriately apportion the bad bed provisions against their corresponding debtors.	✓
Note 19.1. Property, plant and equipment The revaluation movement on the property, plant and equipment value was disclosed net, such that it was not possible to trace how much of the movement had been charged through the surplus/deficit on the provision of services or through the other comprehensive income/expenditure.	Adjustment recommended to disclosed the revaluation movement charged through the surplus/deficit on the provision of services separately from the charge through other comprehensive income/expenditure.	✓
Note 19.4 Capital commitments Comparative information for this disclosure was missing. Note the prior year value was £nil.	Adjustment recommended to include the prior year comparative information.	✓
Note 20. Investment property The descriptor used of 'Revaluation' applies only to property, plant and equipment. The appropriate description for investment properties is 'net gains or losses from fair value adjustments'	Adjustment recommended to reword the descriptor.	✓

D. Audit Adjustments (continued)

Disclosure issue/Omission	Auditor recommendations	Adjusted?
Note 27.2. Operating leases – the council as a lessor Reference was made to the disclosed costs including depreciation which is incorrect as investment properties are never depreciated.	Adjustment recommended to remove reference to 'including depreciation'.	✓
Note 19.6 Capital adjustment account The minimum revenue provision has not been included as a source of 'capital financing'.	Adjustment recommended to show the minimum revenue provision above the 'total capital financing' line.	✓
T1.6. Reconciliation of the fair value of scheme assets The Code requires that a reconciliation be prepared, separately, for both the fair value of scheme assets and the effect of the asset ceiling, however this was shown combined.	Adjustment recommended to split the reconciliations	✓
Note T2.1. Income, expense, gains and losses An old term of "loans and receivables" has been used. This term is as per the old IAS 39 and IFRS .	Adjustment recommended to update wording used.	✓
Note 30 & Note 31. Movements in reserves Comparative information was not provided for either of the movement in reserves notes.	Adjustment recommended to include comparative information.	✓
Note 32.2. Adjustments for items included in the surplus/deficit that are investing and financing activities This note includes a line described as "any other items for which the cash effects are investing or financing cash flows," which is material. Additional disclosure is expected if this contains anything material.	Adjustment recommended to include additional narrative to explain anything material included in this line.	✓
Note 1. Accounting policies Accounting policies have been disclosed for contingent liabilities despite them being immaterial. Per IAS1, immaterial information should be excluded from the financial statements to avoid unnecessary clutter.	Adjustment recommend that the Council removes any immaterial accounting policies from the disclosure.	✓

D. Audit Adjustments (continued)

Disclosure issue/Omission	Auditor recommendations	Adjusted?
Note 3. Critical judgements in applying accounting policies The 'interest in companies and other entities' disclosure did not clearly explain the critical judgements made in determining control and assessing West Mercia Energy as 'non-material'.	Adjustment recommended to improve the disclosure to provide more explanation around the judgments made in assessing the council's interests.	✓
Note C1. Business rates income The income disclosed for the mandatory relief and the funded reliefs have been transposed.	Adjustment recommended to correct the figures.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 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.

Detail	CIES £000	Balance Sheet £000	Impact on total net surplus	Impact on general fund	Reason for not adjusting
We identified an accrual for £3.134m of expenditure incurred in 2023/24. The associated invoice, received post-year end, amounted to £2.349m, with £2.296m relating to 23/24. Of the original accrual, only £2.189m related to this invoice, therefore the accrual is understated by £0.107m and so the expenditure for 2023/24 is understated by this amount, and the expenditure for 2024/25 is overstated by the same. We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement could be **£360,000**.	Net cost of services expenditure understated £360	Accruals understated £360	Net surplus overstated £360	General fund balance overstated £360	Immaterial error
From our expenditure invoice testing, we identified several examples where expenditure either wasn't fully accrued in prior years, or accruals were not accurate. These examples gave rise to a total overstatement in the 2023/24 expenditure of £80,745. We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement could be **£2.905 million**.	Net cost of services expenditure understated £2,905		Net surplus understated £2,905	General fund balance understated £2,905	Immaterial error

D. Audit Adjustments (continued)

Detail	CIES £000	Balance Sheet £000	Impact on total net surplus	Impact on general fund	Reason for not adjusting
Through our testing of the other land and buildings valuations we sought to verify the floor areas used by the valuer in their calculations. In a number of cases, we identified variances between the floor areas used by the valuer and those supported by technical site drawings. In some cases, the valuations were overstated as a result, and in some cases understated. As such, we have no reason to believe that there has been any deliberate attempt to inflate the valuations. The net impact of those assets which were tested was an overstatement in the property, plant and equipment of £714k. With the misstatement being a mixture of overstatements and understatements which are netting off, the other side of the error is an understatement in the revaluation reserve (£702k) and an understatement in the charge through the surplus or deficit on provision of services, which is ultimately transferred to the capital adjustment account (CAA) (£1,416k). We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement in PPE could be £1,121k, in the revaluation reserve it could be £1,103k and in the CIES/CAA it could be £2,224k.	Net cost of services expenditure understated £1,416	Property, plant and equipment overstated £714	Net surplus overstated £714 (Net cost of service expenditure is understated by £1,416k, however other comprehensive income is also understated by £702k, such that the net effect on total comprehensive income is an overstatement of the surplus position by £714k)	£nil as the charge to the general fund is transferred to the capital adjustment account	Immaterial error
Potential overall impact	Expenditure overstated £1,129	Accruals understated £360 PPE overstated £714	Net surplus understated £1,831	General fund balance understated £2,545	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements affecting the prior year.

E. Fees and non-audit services

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

Audit fees	2022/23 actual fee	2023/24 indicative fee at planning	2023/24 anticipated final fee
Scale fee	£106,417	£344,289	£344,289
ISA 315		£12,550	£12,550
Additional fees of the prior year	£52,625		
Additional fee relating to the application of IFRIC 14			£10,000
Additional fees owing to Major Local Audit status			£25,000
Total audit fees (excluding VAT)	**£159,042**	**£356,839**	**£391,839**

All additional fees are subject to approval by PSAA.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Anticipated final fee
Audit related fees:		
Certification of housing benefits subsidy claim – 2020/21 *	£51,823	£51,823
Certification of housing benefits subsidy claim – 2021/22 *	£28,698	£28,698
Certification of teachers' pension claim – 2022/23	£10,000	£10,000
Certification of teachers' pension claim – 2023/24	£12,500	£12,500
Total non-audit fees (excluding VAT)	**£103,021**	**£103,021**

** Fees relating to the housing benefits subsidy claim for 2022/23 & 2023/24 have not yet been confirmed.*

Total audit and non-audit fee	
Audit fee: £391,839	Non-audit fee: £103,021

E. Fees and non-audit services

The fees on the previous slides reconcile to the financial statements as follows:

Audit fee reconciliation	Fee £'000
Total 2023/24 fees per financial statements	392
Total audit fees (agrees to page 41)	392

None of the above services were provided on a contingent fee basis.

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

Non-audit fee reconciliation	Fee £'000
Total 2023/24 fees per financial statements	103
Total audit fees (agrees to page 42)	103

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