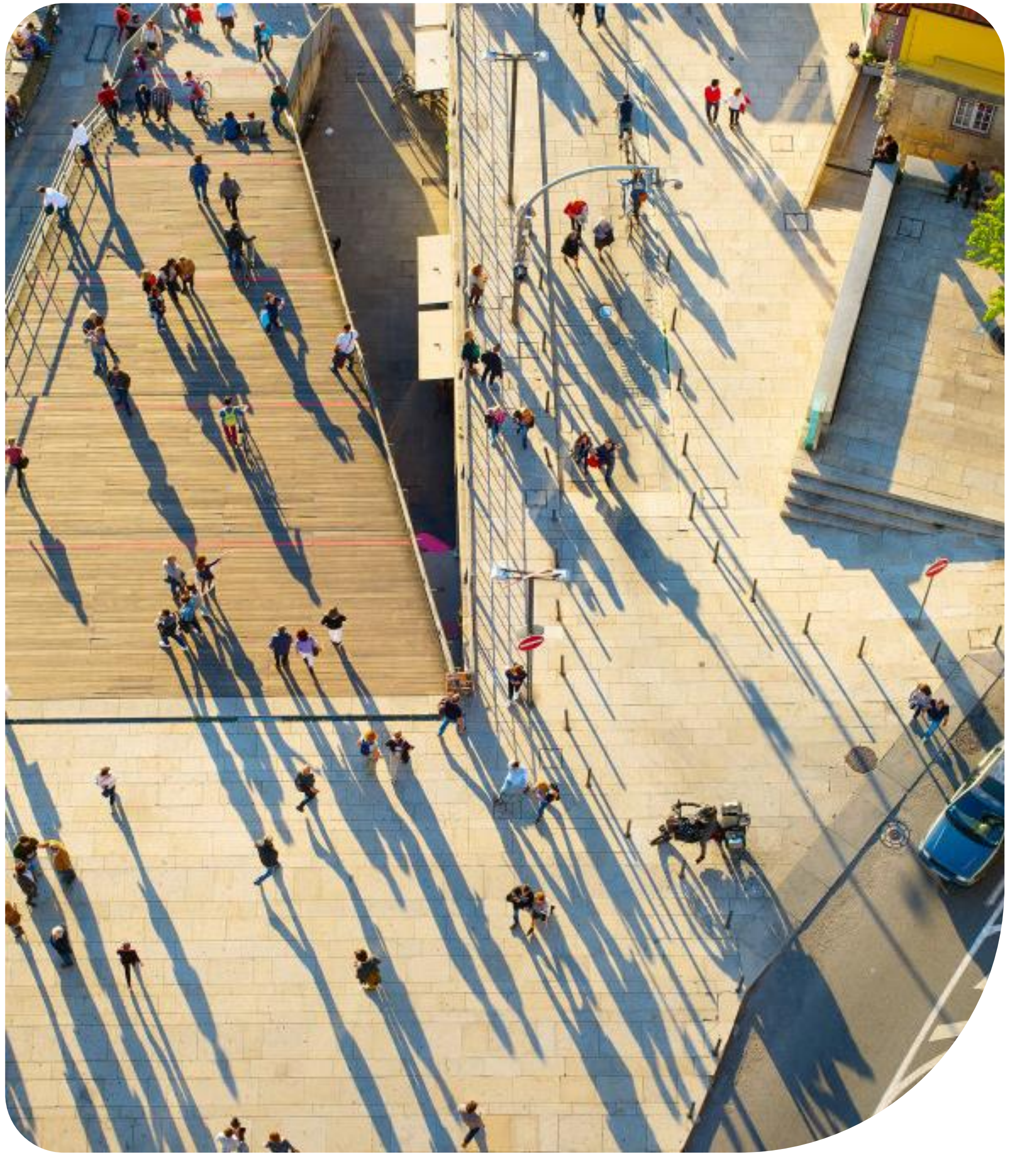
Grant Thornton

Audit Plan for Herefordshire Council

For the year ending 31 March 2025

14 March 2025



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Local Government Reorganisation

External factors

English Devolution White Paper

On 16 December 2024, the Secretary of State for Housing, Communities and Local Government, Angela Rayner, Presented to Parliament the English Devolution White Paper.

The White Paper sets out the direction of travel for the devolution of power across England. Devolution is seen by the government as being fundamental in achieving the change the public expect and deserve. The government's aim is for devolution to promote growth, a joined-up delivery of public services, and politics being done with communities, not to them. England is one of the most centralised countries in the developed world. The goal is universal coverage of strategic authorities in England.

Strategic authorities will be a combination of pre-existing Combined Authorities and Mayoral Strategic Authorities (MSAs). They will be funded through an integrated settlement which can be used by the Authority across housing, regeneration, local growth, local transport, retrofit, skills and employment support. This removes the complexity of numerous grants, conditions and reporting requirements, simplifying it into a single mutually agreed outcomes framework monitored over a supply review period. In combination with this Mayors will be given more control over the devolution of transport, skills & employment support, housing and planning, environment and climate change, supporting business and research, reforming and joining up public services.

The government plans to facilitate a programme of local government reorganisation for 2-tier areas across England. It will also facilitate the reorganisation of unitary councils where there is evidence of failure, or where their size and/or boundaries are a hinderance to local decision making. This will be done in a phased approach and for most will mean creating councils serving a population of 500,000 or more. Along with devolution government wants to reset its relationship with local government, end micro-management and enable local governments through multi-year settlements.

The next steps are:

- A widening and deepening of devolution, expanding on the 2 new Mayors and 6 non-mayoral devolutions already noted in the white paper, with a priority programme for those with plans ready for action;
- An invitation from all remaining 2-tier areas and unitary councils where appropriate, to submit proposals for local reorganisation;
- And re-committing to the English Devolution Bill by putting the devolution framework into statute and moving to a systematic approach that ensures local leaders have the powers they need.

Update

Jim McMahon, Minister for Local Government and English Devolution, wrote to two-tier authorities in February 2025 to set out a timetable for reorganisation proposals to be submitted. We are expecting an interim plan by 21 March 2025 and a full proposal by 28 November 2025.

Local Audit Reform

External factors

Proposals for an overhaul of the local audit system

On 18 December 2024, the Minister of State for Local Government and English Devolution, Jim McMahon OBE, wrote to local authority leaders and local audit firms to announce the launch of a strategy to overhaul the local audit system in England. The proposals were also laid in Parliament via a Written Ministerial Statement.

The government's strategy paper sets out its intention to streamline and simplify the local audit system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. A new Local Audit Office will be established, with responsibilities for:

- Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers;
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- Setting the Code of Audit Practice;
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Minister also advised that, building on the recommendations of Redmond, Kingman and others, the government will ensure the core underpinnings of the local audit system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system;
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- enhancing capacity and capability in the sector;
- strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

Our Response

Grant Thornton welcomes the proposals, which we believe are much needed, and are essential to restore trust and credibility to the sector. For our part, we are proud to have signed 83% of our 2022/23 local government audit opinions without having to apply the local authority backstop. This compares with an average of less than 30% sign off for other firms in the market. We will be keen to work with the Ministry of Housing, Communities and Local Government (MHCLG), with existing sector leaders and with the Local Audit Office as it is established to support a smooth transition to the new arrangements.

Key development impacting our audit approach (1)

National position

Local governments face many challenges, the pandemic along with the cost of living crisis has left local governments with economic, social, and health challenges to address:

Staffing: A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

Climate change: As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local authority pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

Housing crisis: The shortage of affordable housing continues to be an issue. There aren't enough social rented homes to meet demand and it's difficult to find land for new housing developments. New requirements around net zero and other environmental considerations make it more complex to get planning permission. Local authorities therefore face the challenge of providing adequate housing while balancing environmental sustainability and statutory planning requirements.

Funding: Local governments face many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, enforce taxes, and prevent tax evasion. Social care costs, maintaining aging infrastructure, SEND and homelessness are driving up council spending and cuts to discretionary services impact local communities. Strained budgets are making it challenging to fund essential services, infrastructure projects and the ongoing stream of section 114 notices will not come as a surprise this year.

Digital Transformation: The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

Cybersecurity: Local government needs to protect against malware and ransomware attacks. They also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. The clearest evidence of this is that councils' service spending is increasingly focused on adult and children's social care, SEND and homelessness. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as housing, economic growth, and climate change

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our value for money audit work continues to identify significant weaknesses in all criteria of the Code of Audit Practice. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Authority bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

Key development impacting our audit approach (2)

Local context	Our response
New accounting standards and reporting developments • local authorities will need to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on the next slide. • The FRC issued revisions to ISA (UK) 600 'Audits of group financial statements (including the work of component auditors)'. The revised standard includes new and revised requirements that better aligns the standard with recently revised standards such as ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019). The new and revised requirements strengthen the auditor's responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditor, and documentation. The changes are to keep the standard fit for purpose in a wide range of circumstances and the developing environment.	• Detailed review of the authority's implementation of IFRS 16. More information can be found on the next slide. • Enhanced procedures in respect of audits of group financial statements

Our commitments

As a firm, we are absolutely committed to audit quality and financial reporting in local government. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Director of Finance.

To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. Please confirm in writing if this is acceptable to you, and that your staff will make themselves available to our audit team.

We would like to offer a formal meeting with the Chief Executive twice a year, and with the Director of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.

At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.

Our Value for Money work will continue to consider the arrangements in place for you to secure economy, efficiency and effectiveness in the use of your resources.

We will continue to provide you and your Audit and Governance Committee with sector updates providing our insight on issues from a range of sources via our Audit and Governance Committee updates.

We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

IFRS 16 Leases

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17.

Summary

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major change from the requirements of IAS 17 in respect of operating leases.

There are however the following exceptions:

- leases of low value assets (optional for LG)
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). However, if an LG body is an intermediary lessor, there is a change in that the judgement, as to whether the lease out is an operating or finance lease, is made with reference to the right of use asset rather than the underlying asset. The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

Systems and processes

We believe that most LG Bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate

Planning enquiries

As part of our planning risk assessment procedures, we have made inquiries of management and of those charged with governance though the Audit and Governance Committee Chair.

The Backstop

Local Government National Context – The Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- for years ended 31 March 2023 and earlier by 13 December 2024; and
- for years ended 31 March 2024 by 28 February 2025; and
- for years ended 31 March 2025 by 27 February 2026.

The Statutory Instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

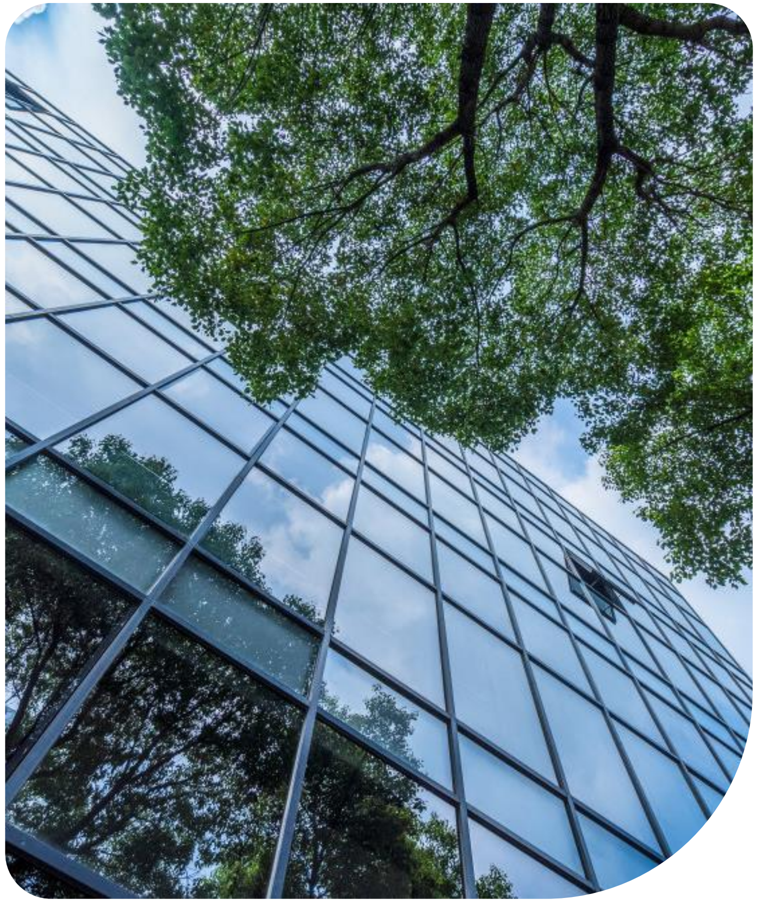
Local Government National Context – Local Audit Position

Herefordshire Council's audited annual statements for the year ended 31 March 2024 were issued on 30 September; well in advance of the backstop deadline.

We do not anticipate any issues with delivering the audit for the year ending 31 March 2025 by the 28 February 2025 deadline.

02 Introduction and headlines

Introduction and headlines (1)



Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Herefordshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Herefordshire Council. We draw your attention to these documents.

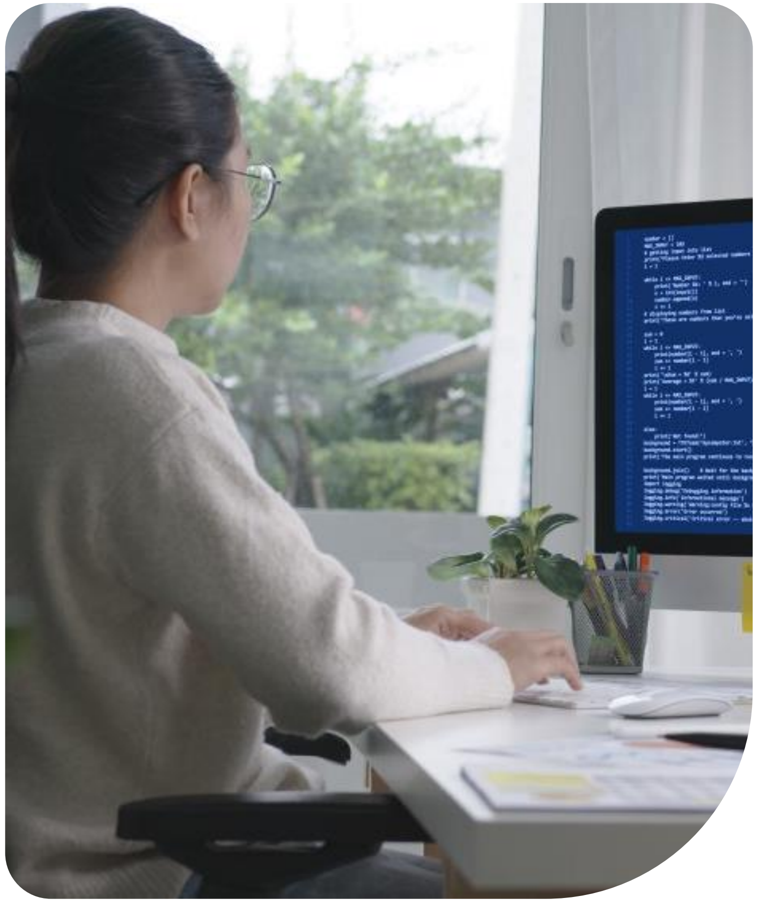
Scope of our Audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's and Group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Introduction and headlines (1)



Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of land and buildings
- Valuation of Investment Properties
- Valuation of the pension fund net asset / liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council prepare group financial statements that consolidate the financial information of the Council and Hoople Limited, a subsidiary of the Council.

Materiality

We have determined planning materiality to be £10.000 million (PY £7.600 million) for the Council, which equates to 2.0% of your prior year gross operating costs for the year (PY 1.5%). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.500 million (PY £0.400 million). A separate specific materiality of £10,000 has been set for the senior officer's remuneration disclosure.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified risks in the following value for money areas:

- Financial sustainability
- Improving economy, efficiency and effectiveness

For more details of the risks identified please refer to pages 33-34.

Audit logistics

Our interim visit will take place in April and our final visit will take place from June - September. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor's Report and Auditor's Annual Report.

Our proposed fee for the audit is £391,322 (PY: £388,039) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) 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

03 Identified risks

Significant risks identified (1)

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.

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	• Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

"In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK)." (ISA (UK) 315).

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550).

Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (2)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Valuation of land and buildings	The significant value of land and buildings and the sensitivity to changes in assumptions.	The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, where a rolling programme is being used, management need to ensure that the carrying value of those assets in the Council financial statements is not materially different from the current value at the financial statements date. We have identified the valuation of land and buildings, particularly revaluation and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, in particular the key assumptions that underpin the valuations.	• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to management's valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Evaluate the valuer's report to identify assets that have large and/or unusual changes in value and/or approach to the valuation and subject those assets to testing. • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Test a sample of asset valuations to ensure that the correct accounting treatment has been applied and correctly reflected in the financial statements. • Engage a valuation expert to review the valuation instructions sent to the Council's valuer and the valuation report received. • For land and buildings valuations; Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to their carrying value at the year end.
Valuation of investment properties	The significant value of investment properties and the sensitivity to changes in assumptions.	The Council revalues its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value as at year end date. The valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We have identified the appropriateness of the assumptions and source data that underpin the valuation of investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.	

Significant risks identified (3)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Valuation of the pension fund net asset / liability	The Council participates in a Local Government pension scheme 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 Statement of Financial Position. The Council's actuary provides an annual IAS 19 actuarial valuation of Council's net liabilities in the pension scheme. There are several assumptions contained within the valuation, including: discount rate; future return on scheme assets, mortality rates etc.	Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability could be materially misstated. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the Council.	• Evaluate 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. • Evaluate the assumptions made by the actuary in the calculation of the estimate, using work performed by an auditor's expert and additional follow up procedures (where required). • Evaluate the data used by management's experts in the calculation of the estimates. • Consider the impact of IFRIC 14 and evaluate its application; • Perform substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations. • Assess the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Significant risks identified (4)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue	We have identified and completed a risk assessment of all revenue streams for the Group. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the revenue streams both individually and collectively.	Where the risk has been rebutted, we do not consider this to be a significant risk for the Group and standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.
The expenditure cycle includes fraudulent transactions (rebutted)	Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.	We have identified and completed a risk assessment of all expenditure streams for the Group. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the expenditure streams both individually and collectively.	Where we do not consider this to be a significant risk for the Group and standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

04 Group audit

Group audit scope and risk assessment

In accordance with ISA (UK) 600 Revised, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Risk of material misstatement to the group	Planned audit approach and level of response required under ISA (UK) 600 Revised	Response performed by	Risks identified	Auditor
Herefordshire Council	Yes	Audit of the entire financial information of the component	Group auditor	• Management override of controls • Valuation of land and buildings • Valuation of investment properties • Valuation of the pension fund net asset / liability	Grant Thornton UK LLP
Hoople Limited	Yes	Specific audit procedures	Group auditor	No specific risks identified	Hoople Limited is audited by Wiliamson & Croft Audit Limited. However, only a limited number of balances are of significance to the group audit, therefore audit procedures over these balances will be performed by the group auditor, Grant Thornton UK LLP, and no reliance will be places on the work of Williamson & Croft Audit Limited.

Fraud and litigation

We have not been made aware of any actual or attempted frauds in the year during our planning procedures performed to date. Should any factors arise in relation to fraud risk or actual or attempted fraud we ask that you inform us of this at the earliest possible opportunity.

05 Our approach to materiality

Our approach to materiality (1)

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.

Matter	Description	Planned audit procedures
01	**Determination** We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council and Group, including consideration of factors such as stakeholder expectations, industry developments, financial stability and reporting requirements for the financial statements	• We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
02	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements	• An item may be considered to be material by nature when it relates to: – instances where greater precision is required
03	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process	• We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality
04	**Matters we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	• We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. • In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £500,000 (PY £400,000). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

Our approach to materiality (2)

	Group (£)	Council (£)	Qualitative factors considered
Materiality (M), performance materiality (PM) and triviality (T) for the group and council's financial statements	M: £10,300,000 PM: £7,725,000 T: £515,000	M: £10,000,000 PM: £7,500,000 T: £500,000	In the planning phase, we established materiality at approximately 2.00% of the gross cost of sales for the 2023/24 financial year, considering factors such as ownership concentration, debt arrangements, the business environment, and the control environment.
Senior officer's remuneration disclosures	M: £10,000	M: £10,000	We will apply a lower materiality threshold of £10,000 on review of the senior officer's remuneration disclosures to ensure that our audit strategy contemplates the public interest vested in the sensitive and influential information stated as part of this report. It is therefore appropriate for this lower level to be applied to ensure greater precision in this area of the accounts.

06 Progress against prior year audit recommendations

Progress against prior year audit recommendations (1)

We identified the following issues in our 2023/24 audit of the Council's financial statements, which resulted in 5 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations below.

Status	Issue and risk	Recommendation and management update
Ongoing – we will review the impact on our audit again for 2024/25.	**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.

Progress against prior year audit recommendations (2)

We identified the following issues in our 2023/24 audit of the Council's financial statements, which resulted in 5 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations below.

Status	Issue and risk	Recommendation and management update
Ongoing - we will review the improved controls as part of our 2024/25 audit.	**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** 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. Evidence of review for audit purposes has been added to the spreadsheet.
Closed	**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** This was an isolated issue linked to the system set up and has been resolved within Business World. There are appropriate controls in place to ensure that system access for leavers is removed as part of the leaving process.

Progress against prior year audit recommendations (3)

We identified the following issues in our 2023/24 audit of the Council's financial statements, which resulted in 5 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations below.

Status	Issue and risk	Recommendation and management update
Ongoing – we will review this as part of our 2024/25 audit.	**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. 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: – 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. – 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. – 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.
Ongoing – we will review this as part of our 2024/25 audit.	**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.

07 IT audit strategy

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Unit 4 (Business World)	General ledger and payroll	We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.

08 Value for money arrangements

Value for money arrangements

Approach to Value for Money (VFM) work for the period ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

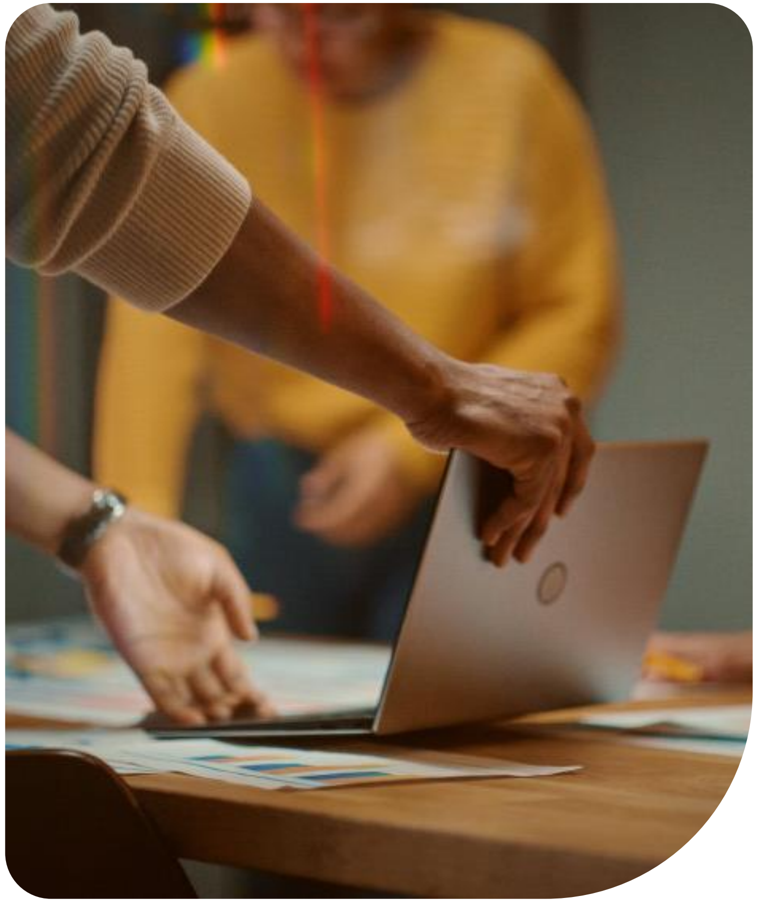
Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Risks of significant VFM weakness



As part of our initial planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed on the table overleaf along with the further procedures we will perform. We will continue to review the body's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

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.

Risks of significant weakness in VFM arrangements

Initial risk assessment of the Council's VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor's work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan, and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2024/25. We will continue to evaluate risks of significant weakness and if further risks are identified , we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	2024/25 risk-based procedures
Financial sustainability	A	No significant weaknesses in arrangements identified, but improvement recommendations made.	The Quarter Three finance report to March Cabinet states "The forecast 2024/25 outturn shows a net overspend of £7.0 million at Quarter 3, before further management action estimated at £5.9 million to reduce the forecast overspend to £1.1 million." And "This review confirms delivery of £10.2 million (52%) of the total savings target for 2024/25 at Quarter 3. A further £1.1 million are expected to be delivered by 31 March 2025 to bring the total savings delivered in year to £11.3 million (58% of the full year target)." The level of savings "at risk", particularly those in Directorates, is driving the unplanned deficit and necessitating further corrective action. Not having appropriately developed savings schemes to support the budget represents a risk of significant weakness. We also noted that the Medium Term Financial Strategy (MTFS) 2025/26 to 2028/29 taken to February 2025 Cabinet states that the cumulative (total) budget gap over this period is £4.2m. This is comprised a £1.76m surplus in 2026/27; £0.95m deficit in 2027/28 and a £5.00m deficit in 2028/29. The projection is therefore worsening each year. This forms part of the risk of significant weakness.	To address this risk we will test the robustness of key savings scheme, focusing on identification, development and delivery.
			The Quarter Two finance report notes that the brought forward Dedicated Schools Grant (DSG) deficit at 1 April 2024 was £6.1m, but is forecast to overspend by £7.6m in year and be a cumulative £13.7m by 31 March 2025. The Quarter Three report indicates that the forecast overspend for the year is now £11.1m, so significantly worse than at Quarter Two. The statutory override is due to end on 31 March 2026. This represents a risk of significant weakness.	To address this risk we will follow up on progress on our prior year improvement recommendation that "the Council needs to work with schools and other stakeholders and partners to ensure that expenditure is reduced" and obtain an update on Council plans to stabilise the deficit.

Risks of significant weakness in VFM arrangements

Criteria	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	2024/25 risk-based procedures
Governance	A	No significant weaknesses in arrangements identified, but improvement recommendations remain from prior years.	No risks of significant weakness identified.	We will undertake appropriate work to address the Code of Audit Practice requirements.
Improving economy, efficiency and effectiveness	R	One significant weakness raised in relation to the Council's continued progress in Children's Social Care Services towards removal of Ofsted's "Inadequate" rating.	In our prior year report, we raised one Key Recommendation that the Council should continue to work with the Department for Education to improve its Children's Social Care Services. This remains a risk of significant weakness for 2024/25.	The significant weakness we raised in our prior year report, and in 2021/22 and 2022/23, constitutes a risk of significant weakness in 2024/25. To address this risk, we will review progress made against our recommendation and improvements made to Children's Social Care Services generally.

We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor's annual report. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. We report our value for money work in our Auditor's Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor's Report and included within our audit opinion.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

09 Logistics

The audit timeline

Logistics

Key Dates

Audit and governance committee:

25 March 2025

Audit and governance committee and sign off:

23 September 2025

Audit phases:

Planning

Jan – Apr 2025

Key elements

- Planning meeting with management to set audit scope
- Planning requirements checklist to management
- Agree timetable and deliverables with management and Audit & Risk Committee
- Issue the Audit Plan to management and Audit & Governance Committee
- Interim testing on applicable audit areas

Year end:

31/03/2025

Fieldwork

Jun – Sep 2025

Key elements

- Audit teams onsite to complete fieldwork and detailed testing
- Weekly update meetings with management.

Completion

Sep 2025

Key elements

- Draft Audit Findings issued to management
- Audit Findings meeting with management
- Draft Audit Findings issued to Audit & Risk Committee
- Audit Findings presentation to Audit & Risk Committee
- Auditor's Annual Report
- Finalise and sign financial statements and audit report

Our team and communications

Grant Thornton core team

Grace Hawkins
Engagement Lead

- Key contact for senior management and Audit and Governance Committee
- Overall quality assurance

Cathy Smith
Audit Manager

- Audit planning
- Resource management
- Performance management reporting

Priya Sharma
In-charge accountant

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

	Audit reporting	Audit progress	Technical support
Formal communications	• The Audit Plan • The Audit Findings • Auditor's Annual Report • Progress and Sector Update Reports	• Audit planning meetings • Audit clearance meetings • Communication of issues log	• Technical updates
Informal communications		• Communication of audit issues as they arise	• Notification of up-coming issues

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

10 Fees and related matters

Fees and related matters

Our estimate of the audit fees is set out in the table across, along with the fees billed in the prior year

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2024) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audit for Herefordshire Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2024/25 audit is £391,322.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here Fee Variations Overview – PSAA

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Entity	Audit fee for 2023/24 (£)	Proposed fee for 2024/25 (£)
Herefordshire Council – scale fee	£388,039	391,322

Our fee estimate

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the valuation of land, buildings and investment properties, and the valuation of the net pension liability/asset.

The fee is subject to review should significant new financial reporting matters arise that require additional time and/or specialist input.

Previous year

In 2023/24 the scale fee set by PSAA was £344,289. The actual fee charged for the audit was £388,039.

11 Independence considerations

Independence considerations

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). In this context, we disclose that there are no matters that we are required to report.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We can confirm that no such breaches have been identified. We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard.

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

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council/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 Council/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 Council/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 Council/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 Council/Group's board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning 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.

Fees and non-audit services

The following tables below sets out the non-audit services charged from the beginning of the financial year to the date of this report, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

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

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Herefordshire Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat.

Non-audit fees for other services	Anticipated final fee	Threats	Safeguards
Audit related fees:			
Certification of housing benefits subsidy claim – 2020/21 *	£51,823	Self-interest (because this is a recurring fee) Self-review (because Grant Thornton provides audit services) Management (as Grant Thornton reports to the grant paying body)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £391,322 and, in particular, relative to Grant Thornton UK LLP's overall turnover. Further, it is a fixed fee and there is no contingent element. These factors all mitigate the perceived risks to an acceptable level.
Certification of housing benefits subsidy claim – 2021/22 *	£28,698		
Certification of teachers' pension claim – 2022/23	£10,000		
Certification of teachers' pension claim – 2023/24	£12,500		
Total non-audit fees (excluding VAT)	£103,021		

Total audit and non-audit fee	
Audit fee: £391,322	Non-audit fee: £103,021

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.

12 Communication of audit matters with those charged with governance

Communication of audit matters with those charges with governance

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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

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.

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 and Key Audit Matters	●	
Planned use of internal audit	●	
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 matters in relation to going concern	●	●
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	●	●
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
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		●

13 Delivering audit quality

Delivering audit quality

Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

Working with premium clients

We work with great public sector clients that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of journals

The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

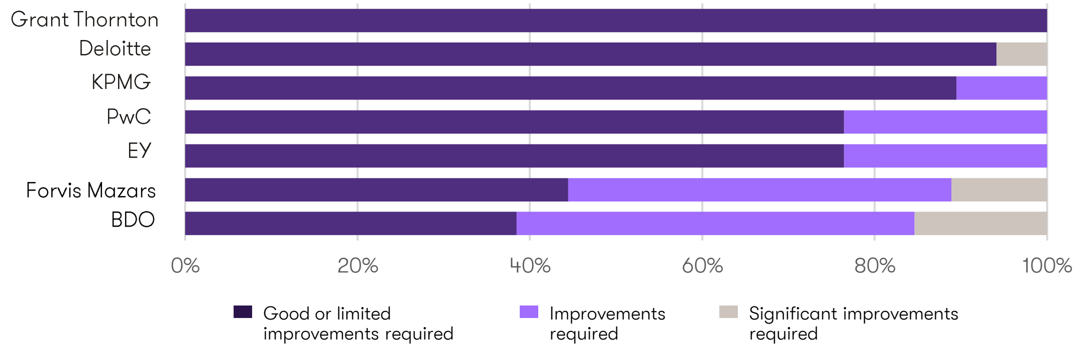
Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

Oversight and control

Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

FRC's Audit Quality Inspection and Supervision Inspection
(% of files awarded in each grading, in the most recent report for each firm)



Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing clients where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell
Partner, UK Head of Audit

14 Appendices

IFRS reporters New or revised accounting standards that are in effect

First time adoption of IFRS 16 Lease liability in a sale and leaseback	• IFRS 16 was implemented by LG bodies from 1 April 2024, with early adoption possible from 1 April 2022. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. • This year will be the first year IFRS 16 is adopted fully within Local Government.
IAS 1 amendments Non-current liabilities with covenants	• These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
Amendment to IAS 7 and IFRS 7 Supplier finance arrangements	• These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

IFRS reporters Future financial reporting changes

IFRS reporters future financial reporting changes

These changes will apply to local government once adopted by the Code of practice on local authority accounting (the Code).

Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are expected to be adopted by the Code from **1 April 2025**.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the Code **in future years**.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is expected to be adopted by the Code **in future years**.

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of ‘Operating profit or loss’ subtotal.
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 is expected to be adopted by the CIPFA Code **in future years**.

The Grant Thornton Digital Audit – Inflo

A suite of tools utilised throughout the audit process

01 Collaborate

Information requests are uploaded by the engagement team and directed to the right member of your team, giving a clear place for files and comments to be uploaded and viewed by all parties.

What you'll see

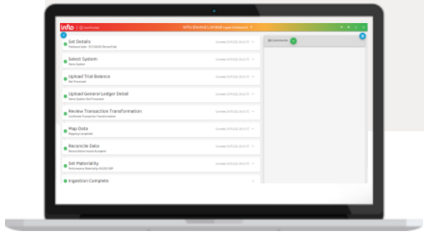
- Individual requests for all information required during the audit
- Details regarding who is responsible, what the deadline is, and a description of what is required
- Graphs and charts to give a clear overview of the status of requests on the engagement

02 Ingest

The general ledger and trial balance are uploaded from the finance system directly into Inflo. This enables samples, analytical procedures, and advance data analytics techniques to be performed on the information directly from your accounting records.

What you'll see

- A step by step guide regarding what information to upload
- Tailored instructions to ensure the steps follow your finance system



03 Detect

Journals interrogation software which puts every transaction in the general ledger through a series of automated tests. From this, transactions are selected which display several potential unusual or higher risk characteristics.

What you'll see

- Journals samples selected based on the specific characteristics of your business
- A focussed approach to journals testing, seeking to only test and analyse transactions where there is the potential for risk or misstatement