KPMG

Year End Report to the Audit Committee

Welwyn Hatfield Borough Council

Year end report for the year ended 31 March 2024

—

30 January 2025

Introduction

To the Audit Committee of Welwyn Hatfield Borough Council

We are pleased to have the opportunity to meet with you on 30 January 2025 to discuss the results of our audit of Welwyn Hatfield Borough Council as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our final audit plan, presented on 05 September 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

The engagement team

We expect to be in a position to sign our audit opinion on the approval of the financial statements and auditor's representation letter by 28 February 2025, provided that the outstanding matters noted on page 6 of this report are satisfactorily resolved.

We will be issuing a disclaimer audit opinion for the reasons outlined on page 4.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,

Christopher Paisley

Director

21 January 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Welwyn Hatfield Borough Council (the 'Council'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit and implications of the statutory backstop

Page 4 'Our audit and the implications of the statutory backstop' explains the impact of the statutory backstop and our resulting conclusion complete a disclaimer opinion on the financial statements.

Our audit is not yet complete, and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 6 'Our Audit Findings' outlines the outstanding matters in relation to the audit.
Our conclusions will be discussed with you before our audit report is signed.

This report is addressed to Welwyn Hatfield Borough Council (WHBC). We take no responsibility for any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Our audit and the implications of the statutory backstop

Measures to resolve the backlog

The Government has introduced measures to resolve the local government financial reporting and audit backlog. Amendments have been made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which have allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For Welwyn Hatfield Borough Council this has resulted in a disclaimed audit opinion for the financial year 2022/23.

Those same amendments to the Accounts and Audit Regulations require the Council to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, as auditors we are required to provide our audit report on those financial statements in sufficient time to enable the Council to publish its audited financial statements by this date, irrespective of if the audit is complete or not.

The appendix ‘Local Audit - Reset and Recovery’ provides more detailed information regarding this. The appendix also provides more detail on the implication of this in future audits, in respect of rebuilding assurance.

Impact on our audit of the financial statements

The impact of the above means that for the financial year 2023/24 we have not been able to obtain sufficient appropriate audit evidence in respect of the 2023/24 opening balances and the comparatives balances relating to 2022/23. The work we have performed in 2023/24 is explained on the next page.

As explained in the previously referenced appendix, the level of rebuilding assurance has been limited in 2023/24 as we have determined that there is insufficient time to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this is pervasive to the financial statements as a whole.

As a result of the above and irrespective of the level of work completed on 2023/24 balances, we intend to issue a disclaimer opinion on the financial statements.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council’s Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Page 17 provides a summary of our findings. Further details are also available in our Auditor’s Annual Report for 2023/24.

Our audit and the implications of the statutory backstop

Work completed in 2023/24

Our indicative audit plan presented to you 18 March 2024 and final audit plan presented to you on 5 September 2024, set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks, in the pages overleaf, identifying the work we have and have not been able to complete.

Although we are disclaiming our audit opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2023/24 we have completed our work on the following areas in addition to our planning and risk assessment work (*except where stated on the underlying slides*):

Significant risks:

- Valuation of land and buildings (see slide 8)
- Management override of controls (see slide 9)
- Valuation of post retirement benefit obligations (10)

Other areas:

- Property, plant and equipment (PPE) additions *(for the housing revenue account (HRA), other land and buildings and assets under construction (AUC))*, and the reclassification of AUC.
- Income streams including: fees, charges and other service income (*other than grant income*); other income below cost (*other than grant income*); HRA income and; collection fund income (*other than business rates*). Cut off testing over income was also performed.
- All material expenditure categories including; employee benefit expenses; premises expenses; supplies and services; third party payments; transfer payments and; other expenditure below net cost of service (*which includes interest income*). Cut off testing over expenditure also performed as well as search for unrecorded liabilities testing.
- Cash and cash equivalents including opening balances (i.e. 2022/23 comparatives).
- Investments.
- A proportion of the debtors balance (including housing tenant arrears).
- A proportion of the creditors balance (including goods received not invoiced (GRNI), Loans and Accrued Expenditure).

We have been unable to complete our work on the following areas:

- Opening balances, other than Cash and cash equivalents, and closing Property, Plant and Equipment balance given the reliance on the opening balances needed;
- Movements in usable and unusable reserves for the year ended 31 March 2024;
- Other material work areas: PPE disposals; grant income; business rates income and appeals provision; a proportion of the debtors balance; and a proportion of the creditors balance.

Challenges with progressing work on the 2023/24 financial statements

As this was a first year audit, we experienced some delays and disruption as we built our understanding of the financial systems in place at the Council, and the nature and format of reports able to be extracted from those systems. We also experienced delays in management providing certain information in the format we required for our testing. Matters which led to challenges in performing the audit included the following:

Delays in obtaining the required information in the correct format, in relation to listings and sample evidence for:

- *Trial balance and journals report;*
- *Property, plant and equipment;*
- *Debtors and Creditors; and*
- *Council tax income.*

Lack of availability of listings to support certain balances, primarily:

- *Business rate appeal provisions; and*
- *Business rates income.*

We are in process of considering the impact on our audit fees as a result of these challenges.

We will work with management in advance of the 2024/25 audit to ensure these are addressed where possible. We expect that by concluding the 2023/24 audit by 28 February 2025, we will be afforded sufficient time during the 2024/25 audit cycle to complete all work on areas on which we are able to gain sufficient appropriate audit evidence (i.e. without assurance on opening balances at 01 April 2023).

Our audit findings

We have set out below the status of our work and key findings from the work we were able to perform before the backstop date. On page 4 we have discussed the reasons for the disclaimer audit opinion.

Significant audit risks	Page 7 - 13
Significant audit risks	**Our findings**
Valuation of land and buildings	Work over the significant risk is complete with no misstatements identified. See page 8 for more details. Please note that the audit team did not gain assurance over the entire PPE balance, but of those assets revalued during the year.
Management override of controls	Work over the significant risk is complete barring receipt of supporting evidence for a single immaterial sampled journal. A recommendation has been raised with regards to segregation of duties in the posting of certain types of manual journals. See Page 9 for more details.
Valuation of post retirement benefit obligations	Work over the significant risk related assumptions is complete. Three non-material audit misstatements have been identified as outlined on Page 10. A recommendation has been raised with regards to management review of actuarial assumptions.
Key accounting estimates	**Page 14**
Valuation of Land and Buildings	We assessed as reasonable the assumptions underpinning the valuation.
Valuation of Pension Liabilities	We assessed as reasonable the assumptions underpinning the valuation.

Uncorrected Audit Misstatements		Page 27
Understatement/ (overstatement)	**£k**	**%**
Total Comprehensive Income and Expenditure	(2,224)	(2.8)
Net Assets	2,224	0.2

Corrected Audit Misstatements		Page 27
Understatement/ (overstatement)	**£k**	**%**
NA – None identified.		

Misstatements in respect of Disclosures	Page 27
Misstatement in respect of Disclosures	**Our findings**
NA – None identified.	

Number of recommendations in relation to control deficiencies	Pages 28 – 31
Significant control deficiencies	0
Other control deficiencies	3
Prior year control deficiencies requiring follow up	0

Outstanding matters

Our audit is substantially complete except for the following outstanding matters:

- A small number of outstanding sampled transactions which we expect to have concluded by the 30 January 2025 Audit Committee meeting.
- Final review of Statement of Accounts for internal consistency and arithmetic accuracy and for compliance with the CIPFA Code.
- Management representation letter.
- Finalise audit report and sign.

Significant risks

**We discussed the significant risks which had the greatest impact on our audit with you when we were planning
our audit.**

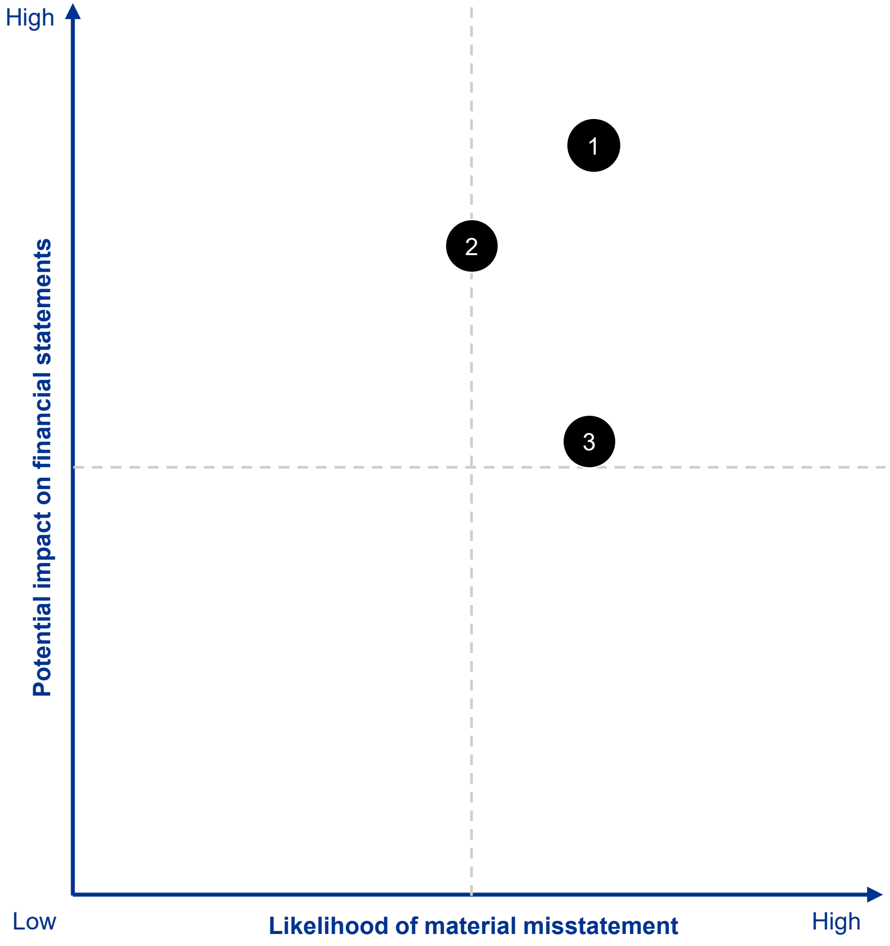
Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Welwyn Hatfield Borough Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

In the pages overleaf we have reported the work we have completed on significant risks and other audit risks.

Significant risks	
1.	Valuation of land and buildings
2.	Management override of controls
3.	Valuation of post retirement benefit obligations

Key: # Significant financial statement audit risks



Audit risks and our audit approach

1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value

Cautious Neutral Optimistic

Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.

The Council conducts a full valuation every five years of HRA assets. In between these five yearly valuations an annual desktop review is undertaken.

With regards to general funds assets, a proportion of the assets are valued each year as part of a rolling programme whereby all assets will be valued at least once every 5 years

Valuations are inherently judgmental and there is a risk of error that the assumptions are not appropriate or correctly applied.

The value of the Council's Land & Buildings at 31 March 2024 was £1,186m.

The last full revaluation of HRA assets took place 31 March 2021. The last full revaluation of general fund assets took place 1 April 2014, and through the rolling programme all assets have been valued within the last 5 years.

Our response and findings

Please note that the audit team did not gain assurance over the entire PPE balance, but work was performed in respect of those assets revalued in 2023/24.

We have performed the following procedures designed to specifically address the significant risk associated with the valuation of land and buildings, including council dwellings:

- We critically assessed the independence, objectivity and expertise of the District Valuer (HRA assets) and Avison Young (general fund assets), the valuers used in developing the valuation of the Council's properties at 31 March 2024.
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used - **a recommendation has been raised to formalise the review performed, please see Recommendation 3 on Page 31.**
- We challenged the appropriateness of the valuation of land and buildings, including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement.
- We challenged the appropriateness of the valuation of dwellings on a sample basis with reference to available market data for comparable assets in a similar location.

We did not identify any audit misstatements from our work in respect of this significant risk.

Audit risks and our audit approach (cont.)

2 Management override of controls[(a)]

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Our response and findings

Our audit methodology incorporates the risk of management override as a default significant risk. We have performed the following procedures designed to specifically address this significant risk:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Evaluated the selection and application of accounting policies;
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments – **a recommendation has been raised with regards to segregation of duties in the posting of certain types of manual journals, please see Recommendation 2 on Page 30**;
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates; and
- We analysed all journals through the year and focused our testing on those with a higher risk.

We did not identify any audit misstatements from the work performed in respect of this significant risk.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year-on-year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response and findings

We have performed the following procedures designed to specifically address this significant risk:

- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability.
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the surplus to these assumptions; and
- Assessed the level of surplus/deficit that should be recognised by the entity.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (continued)

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
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- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response and findings (continued)

We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. We identified that future improvements to mortality was cautious, but still within reasonable range. All other individual assumptions were balanced and within our reasonable range (see Page 13).

We have identified three unadjusted audit differences following completion of the work to address this significant risk:

- Actual return on assets confirmed with the Fund was £824k greater than the return on assets within the IAS19 valuation report and the reported in the financial statements. This is due to the timing of the production of the initial actuarial report which is prior to the final returns for the financial year being determined;
- Net defined benefit obligation is overstated by £1,400k. This is because the scheme actuary has selected a time horizon of 20 years over which to calculate the minimum funding obligation in the scheme, whereas we consider that the maximum legal obligation is for a period of 18 years which results in a lower calculated obligation.
- We confirmed benefits paid with the Fund and the confirmed level was £1,170k greater than the amount used in the IAS19 actuarial report. This has no net effect on the defined benefit obligation as both scheme assets and liabilities are understated by the same amount.

Upon review of the process and after discussions with management, we noted that there are no key controls in place around the assumptions. Although reviewed, management do not challenge the assumptions used or review the reasonableness of the calculations performed. **A recommendation has been raised to expand the level of the review performed, please see Recommendation 1 on Page 28.**

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (continued)

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year-on-year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

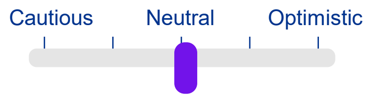
Our response and findings (continued)

- We challenged management's assessment which has resulted in a £1.4m audit difference based on the funding horizon used for minimum funding requirements (MFR). We are recommending that management make appropriate narrative disclosure that the £21.91m MFR has been calculated using the information available in the rates & adjustments certificate and applying the contributions payable per the latest available year in the rates & adjustments certificates for the remainder of the funding horizon.
- Following the Court of Appeal's dismissal of the Virgin Media appeal, we have recommended that the Council makes appropriate narrative disclosure that it is currently not clear if there is any impact on the benefits in LGPS Funds, therefore it is not possible for employers to quantify the Defined Benefit Obligation impact, if any.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (continued)

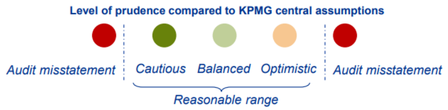
An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year-on-year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response and findings (continued)

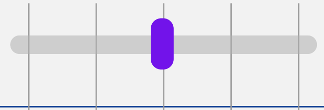
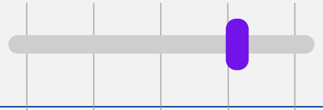
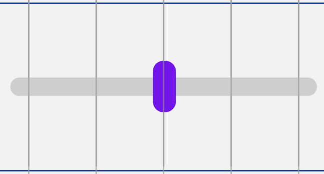
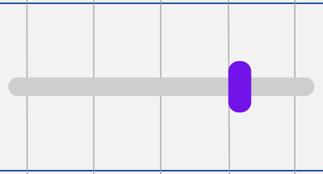
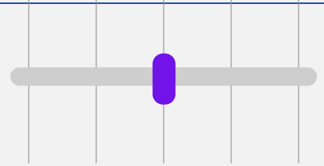
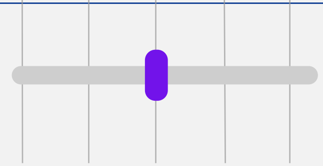


Overall assessment of assumptions for audit consideration							● Balanced	
Underlying assessment of individual assumptions		**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG central**	**Assessment**	**Significant assumption**
Discount rate		AA yield curve	✓	✓	4.80%	4.81%	●	✓
Unadjusted CPI		Underlying CPI assumption before adjustments for emerging inflation	✓	✓	2.85%	2.85%	●	✓
Pension increases		In line with CPI	✓	✓	2.80%	2.88%	●	
Salary increases		Employer best estimate	✓	✓	3.30%	In line with long-term remuneration policy	●	
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	Fund-specific based on Club Vita Curves	In line with best-estimate Fund experience	●	✓
Mortality	Future improvements	In line with most recent Fund valuation, updated to use latest CMI model	✓ See page 10	✓	CMI 2022, 1.5% long-term trend rate, initial addition parameter of 0.25% and default other parameters	CMI 2022,1.25% long-term trend rate and default other parameters	●	✓
Other demographics		In line with most recent Fund valuation	✓	✓	45% of maximum additional tax-free cash up to HMRC limits	In line with Scheme experience	●	

Key accounting estimates and management judgements – Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
	Cautious / Neutral / Optimistic			Needs improvement / Neutral / Best practice	
LGPS Gross Liability		(213)	(34)		Our actuarial specialists have assessed the overall assumptions used by management in valuing the pension liabilities as balanced and within our reasonable range. No issues were noted in the judgements made in the valuation of pension liabilities.
LGPS Gross Asset		191	12		We have assessed the asset returns adopted by the Fund and the consistency of asset allocation and share of scheme assets year on year. We identified a £0.8m timing difference between the asset returns available as at the publication of the draft accounts and as at the audit date.
Valuation of Land and Buildings		1,186	(20)		We consider the estimate to be balanced based on the procedures performed (*note the revalued portion of land and buildings was considered as opposed to the full balance*). However, a recommendation has been raised to formalise the review performed, please see Recommendation 5 on page 30.

Other matters

Narrative report

While we are disclaiming our audit opinion and not reporting on the narrative report, we have identified the following based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council.

As Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

However, we note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Narrative Report, we are unable to determine whether there are material misstatements in the Narrative Report.

Annual Governance Statement

While we are disclaiming our audit opinion and not reporting on the Annual Governance Statement, we have identified the following based on the work performed:

- We have completed the work to consider whether it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

However, note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Annual Governance Statement, we are unable to determine whether there are material misstatements in the Annual Governance Statement.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for Welwyn Hatfield Borough Council, the threshold at which detailed testing is required has not been exceeded.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA 2023/24 audit scale fee for the audit was **£169,227** plus VAT (£56,921 in 2022/23) We have also agreed fee variations to date of £10,150 with management. Refer to page 23 for more details.

We have also completed non audit work at the Council during the year on Pooling of Housing Capital Receipts (PHCR) Certification and Housing Benefit Assurance Process (HBAP) Certification and have included in on page 24 confirmation of safeguards that have been put in place to preserve our independence.

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Value for money

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources irrespective of the statutory backstop as explained on page 4.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified no risks of significant weaknesses. As a result of the work we have identified no significant weaknesses.

Performance improvement observations

As part of our work we have identified four Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses. These are set out within our Auditor's Annual Report.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Appendices

Contents	Page

Local Audit - Reset and Recovery

Background

It has been widely reported the level of delays in Local audit had grown to an unacceptable level. As a result, Central Government has been working with the Financial Reporting Council (FRC), as incoming shadow system leader and other system partners to develop proposals to address issues in the local audit. These consist of three stages:

Phase 1: **Reset** involving clearing backlog of historical audit opinions.

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 cycle.

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

Implementation of Reset and Recovery

The Accounts and Audit (Amendment) Regulations 2024, introduced backstop dates by which local bodies must publish audited accounts and the NAO have also issued the revised 'Code of Audit Practice 2024 **Code of Audit Practice** that requires auditors to give an opinion in time to enable local bodies to comply with the backstop date. The table overleaf identifies the backstop dates and the status of your audits where impacted.

The NAO has also published Local Audit Rest And Recovery Implementation Guidance (LARRIGs), which have been prepared and published with the endorsement of the FRC and are intended to support auditors in meeting their requirements under the Act https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors

Local Audit - Reset and Recovery

Financial year	Date
Up to 2022/23	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Recovery period and audit work

The implication of receiving a disclaimed audit opinion for the financial year 2022/23 means that for the financial year 2023/24 we have not been able to rely on the opening balances from 2022/23.

To obtain sufficient appropriate audit evidence over opening balances, auditing standards identify two approaches. One of those is to use the working papers and other information available on the prior year audit file, which as noted above has not been possible as the outgoing auditor has not been able to complete their audit. An alternative approach is the performance of specific audit procedures to obtain evidence regarding opening balances.

The LARRIGs, in particular LARRIG 05 *Rebuilding assurance following a disclaimed audit opinion,* was only finally published in September 2024 and further guidance, mentioned in the LARRIG in the format of a case study was only released in December 2024.

We also note there is an ongoing sector wide process, convened by the Financial Reporting Council (FRC) with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances. This, along with the backstop date for 2022/23 being only 2 months prior to that of the 2023/24 period, has limited the extent of building back assurance that has been possible in 2023/24.

During our audit of 2023/24 we have completed certain work on the closing balances for 2023/24 and in year transactions (see page 6) and this will contribute to rebuilding assurance.

The table overleaf identifies an indicative pathway to returning to an unmodified opinion. However, it must be noted this is only an indicative pathway and the speed of progress will depend on a range of factors including the level of work required to provide assurance on opening balances, in particular PPE balances and reserves balances.

Local Audit – Reset and Recovery

Rebuilding assurance

Given the importance and complexity of reserves balances and management, a detailed risk assessment will be undertaken to understand the level of work required to obtain sufficient appropriate audit evidence on the reserves balances. As noted on the previous page, there is an ongoing sector wide process with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances.

We note there may be other factors which impact on the speed of this work – such as the support provided by the audited entity and availability and quality of audit evidence. Where such support is not provided and the availability and quality of audit evidence is not present this will significantly impact on the time taken to build back assurance and the likely cost of such a process in terms of audit fees. We note the challenges identified on page 5 regarding this year's audit. As we complete our debrief with management, we can discuss how assurance can be gained on individual account balances and ultimately lead to a position that unmodified opinions can be issued in future years.

Indicative pathway based is reproduced from the LARRIGs

2023/2024	Disclaimer of Opinion	Auditors will begin work to rebuild assurance, gaining sufficient assurance over some, but not all, closing balances. No assurance will be possible over brought forward balances from 2022-23 or comparatives, therefore this will lead the audit to be disclaimed as it cannot be concluded that the financial statements are free from material and pervasive misstatement.
2024/2025	Disclaimer of Opinion / Qualified (Except For)	Auditors will now have obtained sufficient evidence over most, if not all, closing balances in 2024-25, but does not yet have assurance over the brought forward balances that were not audited in 2023-24. This will likely lead the auditor to disclaim, however where auditors have gained assurance over in-year movements, they may be able to issue a qualified opinion instead.
2025/2026	Qualified (Except For)	Auditors should have assurance over the opening and closing balances plus in year movements, but may not have sufficient assurance over the comparative figures. This will likely lead to a qualification by limitation of scope to exclude assurance over the comparative figures – a material, but not pervasive misstatement.
2026/2027 2027/2028	Unmodified	It is expected that most audits, will have assurance over opening balances, closing balances, in-year movements and prior year comparatives. This will result in an unmodified opinion being issued.

Required communications

Our response to these required communications reflects the status of the audit at the point of the backstop.

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	OK	There were £nil adjusted audit differences. See page 27.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be £2.2m. Unadjusted differences are not material individually or in aggregate.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicate to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit within this document.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	X	Our audit opinion will be disclaimed.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the narrative report. The narrative report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	The were no significant matters arising from the audit which required discussion, or were subject to correspondence, with management.
Certify the audit as complete	OK	We have not yet certified the audit as complete because our work on WGA is outstanding.
Provide a statement to the NAO on your consolidation schedule	OK	We have confirmed that, for Welwyn Hatfield Borough Council, the threshold at which detailed testing is required has not been exceeded.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000)*
Statutory audit	169	*57*[a]
Fee variation: ISA315r	10	-
Other Fee Variations - TBC		
TOTAL	**179**	*57*

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement).
- Additional fees charged are subject to the fees variation process as outlined by the PSAA.

Note: (a) Scale fee charged by Ernst & Young LLP – your predecessor auditor (does not include any agreed fee variations).

Proposed fee variations

	Recurrent?	£
New auditing standards (ISA (UK) 315) not included in scale fee	Yes – built into FY25 scale fee by PSAA	10,150
Additional work related to delays in provision of information for testing of Council Tax and NNDR (Business Rates)	No, assuming we are able to address in 2024/25 via debrief process	Pending discussion and agreement with management
Additional work to identify population of PPE additions in a format that can be tested	No, assuming we are able to address in 2024/25 via debrief process	
Delays to completion of certain planning activities including walkthroughs of some key processes	No, assuming we are able to address in 2024/25 via debrief process	

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of Welwyn Hatfield Borough Council

Professional ethical standards require us to provide to you at the completion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the potential threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity [except for those detailed below where additional safeguards are in place].

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

During the year we provided non-audit services relating to the certification of the Pooling of Housing Capital Receipts (PHCR) and Housing Benefit Assurance Process (HBAP). Further detail is provided on the following page.

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £k	Value of Services Committed but not yet delivered £k
1	Pooling of Housing Capital Receipts (PHCR) Certification	None identified	• The engagement contract makes clear that we will not perform any management functions. • The work is performed is not relied on during the audit. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	TBC	TBC
2	Housing Benefit Assurance Process (HBAP) Certification	None identified	• The engagement contract makes clear that we will not perform any management functions. • The work is performed is not relied on during the audit. • Our work does not involve judgement and are statements of fact based on agreed upon procedures	Fixed	TBC	TBC

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Council for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be below 2:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Scale Fee and agreed fee variations	179
Other Assurance Services	TBC
Total Fees	**TBC**

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported corrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'000s)
NA – None identified

Uncorrected audit differences (£'000s)

No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr LGPS Plan Assets Cr Return on Assets (OCI)	 (824)	824	Actual return on assets confirmed with the Fund was £824k greater than the return on assets within the IAS19 valuation report and the reported in the financial statements. This is due to the timing of the production of the initial actuarial report which is prior to the final returns for the financial year being determined.
2	Dr Net Defined Benefit Obligation Cr Remeasurement of Net Pension (OCI)	 (1,400)	1,400	Net defined benefit obligation is overstated by £1,400k. This is because the scheme actuary has selected a time horizon of 20 years over which to calculate the minimum funding obligation in the scheme, whereas we consider that the maximum legal obligation is for a period of 18 years which results in a lower calculated obligation.
3	Dr Gross Pension Liabilities Cr Gross Pension Assets		1,170 (1,170)	We confirmed benefits paid with the Fund and the confirmed level was £1,170k greater than the amount used in the IAS19 actuarial report. This has no net effect on the defined benefit obligation as both scheme assets and liabilities are understated by the same amount.

Misstatements in respect of Disclosures (£'000s)
NA – None identified

Recommendations in relation to control deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

Priority rating for recommendations		
❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	② **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	③ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	③	**Management review of pension assumptions** **Finding:** Auditing standards require us to report to those charged with governance our evaluation of management review controls in respect of significant estimates within the financial statements. We consider that management's review processes relating to defined benefit pension assumptions that have been undertaken to be proportionate to the entity, its size and operations. Management reviews the assumptions and methodologies used in the calculation of the IAS 19 report. This includes inputs to testing such as cash flow, membership data and asset balances. This is based on their understanding of the pension scheme, the accounting standard and the business process and circumstances. However, the design and implementation of this management review does not meet the requirements of a formal management review control as defined by International Standards on Auditing (ISAs). This is because the level of in-house actuarial expertise does not exist within the organisation to undertake a full management review that challenges the assumptions proposed by the scheme actuaries. Also, we identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, it does not allow for an objective criteria to perform their review on and therefore it is ineffective. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control.	**Management Response:** The findings and recommendations are acknowledged. As stated in the recommendations, this is a common matter in local government audit. The standards set a very high bar, and the Council does not have internal actuaries as perhaps might be seen in large private sector organisations. Management however do undertake reviews on the assumptions used by the actuaries and have an opportunity to have these assumptions revised or updated if they feel it would be appropriate to do so. It is acknowledged that this review is not currently documented, and this will be introduced from the 2024/25 final accounts process onwards. We are aware that pensions reporting is an area regularly flagged to the government as one of the barriers to timely accounts completion, and that the government may be considering changes in future to the reporting of these. Any changes proposed may simplify reporting and audit arrangements on this area in future. The government consultation on audit reform is currently live.

Recommendations in relation to control deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	3	**Management review of pension assumptions (cont.)** **Risk:** The pension liability is material to the financial statements. Accounting for defined benefit schemes involves the use of actuarial assumptions (e.g. discount rate, interest rate, mortality rate, rate of salary and pensions increases), complex calculations, up to date scheme data and judgement over matters of accounting treatment (e.g. recognition of surpluses, treatment of changes in benefits and curtailments). These give rise to risks of inappropriate estimates and incorrect accounting treatment respectively. Small changes in the assumptions could lead to a potential range of reasonable outcomes being greater than materiality for the financial statements. Due to the size of the defined benefit scheme compared with materiality for the financial statements as a whole these assumptions are considered to introduce a high level of estimation uncertainty which we have determined under ISA540 to represent a significant risk. We acknowledge that whilst management recognise the importance of having ownership over the defined benefit pension valuation, they draw on the expertise of actuarial experts engaged by the Council. **Recommendation:** This is a common finding in the Local Government sector. However, should management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the net Defined Benefit Pension liability. As a minimum, we recommend that management's assessment of these assumptions is fully documented from the 2024/25 financial year onwards. This should include a review of the financial assumptions, including particularly the salary increase assumption, as well as the appropriateness of the membership data and cash flow (contributions) data reported by the actuary.	**Officer:** Richard Baker (Executive Director (Finance and Transformation)) **Due Date:** 31 March 2025

Recommendations in relation to control deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	3	**Segregation of duties in the posting of manual journal transactions** **Finding:** For certain manual journal types, specifically those which do not go through a workflow, segregation of duties with regards to their posting is not enforced. **Risk:** There is a risk of manual journals without segregation of duties being posted that results in inappropriate or erroneous entries being posted to the ledger going undetected. This is therefore linked to our Management Override of Controls significant risk. **Recommendation:** This is a common finding in the Local Government sector. However, best practice would be for segregation of duties to be in place for all manual journals between the person preparing and approving the journal. Where this cannot be enforced by the system, a process should be put in place to identify self-approved journals so that their appropriateness can be reviewed by a senior member of the team retrospectively.	**Management Response:** It is recognised that this approach could be improved, and the team will be investigating the journals that are undertaken without workflow with a view to implement the following for each type of journal: • Where possible, systems will be updated to ensure transactions are coded at source, for example, the coding of investments direct from bank transactions using the cash receipting system; • Where coding at source is not possible, workflow will be introduced to provide an authoriser to the journals; • Where this is not possible, manual reporting will be undertaken to report on, review, and approve posted journals at an agreed frequency. Whilst it is agreed this will ensure the council is delivering best practice, it should be noted that there are already strong segregation of duties between staff and journal postings, which would flag any irregularities. As an example, taking the processing and coding of investments: • The investment is placed by the Treasury, Insurance and Controls Officer • The investment is approved by one of 4 senior officers named in the Treasury Management Principles and Practices. • The journal is posted by a Financial Processes Officer* • The bank reconciliation is completed by the Financial Processes Team Leader • The investment reconciliation is completed by a Financial Processes Officer*, authorised by Financial Processes Team Leader • The Financial Processes Officers listed are two different individuals **Officer:** Richard Baker (Executive Director (Finance and Transformation)) **Due Date:** Investigation to be performed initially

Recommendations in relation to control deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	❸	**Review of valuer assumptions** **Finding:** We have confirmed that management undertakes an initial review of the valuation reports and challenges the District Valuer (HRA assets) and Avison Young (general fund assets) in respect of specific movements and adjustments to land and building values. However, management does not complete a formal review or approval of the assumptions provided by the valuers in a manner that represents an effective Management Review Control. As these are significant estimates, we are required by auditing standards to consider whether an effective Management Review Control exists and report to you where we have not identified such a control. **Risk:** The lack of formal review increases the risk of errors being unidentified, leading to misstatements within the financial statements. **Recommendation:** This is a common finding in the Local Government sector. We recommend that management documents a formal review of the valuers’ assumptions used on an annual basis, such as the increase in BCIS indices for specialised properties, the yield rate used for non-specialised properties and investment properties, and the change in beacon values for Council Dwellings. As a result of this process, management should challenge the valuer where the assumptions used are inconsistent with management’s expectations.	**Management Response:** As stated in the recommendations, this is a common matter in local government audit. The findings and recommendations are acknowledged, in particular around keeping a documented trail of the review. Management do undertake reviews on the valuations, including comparing valuation changes to recognised indices, and querying any outliers to this. The Council Estates team also input into the process and undertake reviews of the commercial valuations, querying and challenging these where they feel appropriate. We will be looking to implement a way to document the review that has been undertaken, with appropriate evidence, in order to support the audit of the accounts. **Officer:** Richard Baker (Executive Director (Finance and Transformation)) **Due Date:** 31 March 2025

Performance Improvement Observations in respect of VFM arrangements

#	Issue	Management Response
1	**Evidence of challenge around risk actions** Opportunities for challenge of risk actions, including actions to manage financial risks, is via the provision of risk registers and risk reports to the Audit Committee, Overview and Scrutiny Committee and Cabinet. However, within the minutes of the meetings at which the risks registers were presented, the evidence of challenge was limited. For example, the Cabinet minutes did not indicate that any attendees queried or questioned the details relating to the finance risks, and the Overview and Scrutiny Committee minutes made no specific reference to the finance risks. The Council should consider maintaining a more detailed record of financial risks decisions in those key forums that have responsibilities around financial risks, to ensure appropriate challenge is captured.	The Executive are fully briefed on the councils risks through Executive Member Briefings, Cabinet briefings and Performance Clinic. In addition, specifically on Financial risks, to which the focus of the recommendation is on, the Cabinet receive budget monitoring reports which highlights emerging risks. They are also briefed through the year on the Medium Term Financial Forecasts, including how risks are considered in short and medium term planning. Wider councillor groups also receive similar finance briefing, for example the annual finance seminar, group briefings, task and finish panel presentations and OSC presentations. It should also be noted that officers seek to highlight and explain any key changes in risks when presenting risk reports to committees, including financial risks, in order to assist with members understanding prior to opening the floor to questions. Reviewing the minutes of the Audit Committee in relation to meetings held during 2023/24, the following is a summary of discussions on financial risks: • 28 June 2023 – Officers explained and brought to the attention of members a key income stream risk for which the risk score had been amended, also highlighting and explaining the strategic financial sustainability risk. Members raised queries on the strategic risk asking for clarity around funding and use of reserves to which officers provided responses. • 18 September 2023 – Members raised queries in relation to risk on the medium-term financial position of the councils, and on inflationary risks to which officers provided responses. • 18 March 2024 – Officers explained and brought to the attention of members the amendments made to the strategic risk in relation to finance. In relation to OSC, the budget is scrutinised through the use of a Task and Finish Group commissioned by OSC. During the Task and Finish Panels held during 2023/24, Members were presented with information on the councils finances, including medium term assumptions used and an overview of the sensitivity analysis undertaken, an overview of in year pressures and emerging risks, government funding forecasts and risks associated with these, capital financing and borrowing risks and forecasts. The minutes of these meetings demonstrate that members understood possible impacts to proposals, with questions being raised around subject matters like price-elasticity, around key income stream volatility, the impact of the cost-of living crisis. The level of challenge and debate on risks, will be highly dependent on Councillors understanding of risk. Where members feel they understand the risks and controls, and agree with what is presented, it less likely questions/challenge will be raised. The financial risk commentary is comprehensive to assist with members understanding. We agree that the understanding and challenge to risk is essential. We believe there are robust processes and procedures in place to enable this, and feel there are records in place that demonstrate that members consider and challenge financial risks.

Performance Improvement Observations in respect of VFM arrangements (cont).

#	Issue	Management Response
2	**Detailed information within risk registers** The Council should consider increasing the level of detail of the controls/actions in place to respond to risks within the risk register, to ensure those charged with governance have clear information pertaining to how the risks are to be addressed. For example, the fire safety primary action is, "Programmes are regularly reviewed and updated to ensure compliance." However, it is less clear for the users of this report what is meant by ‘regularly’ and the nature or depth of the review completed.	The council introduced a new risk management policy, strategy and framework in 2023, which was followed by a full review of the risk register. These changes brought significant improvements to the reporting and oversight of risk, which has previously been noted by the audit committee. It is recognised that further focus on the controls, and providing clarity on some of these controls, would improve the understanding of risk controls by the readers of the reports. The Senior Management Team will be asked to undertake a review of all risk controls to ensure that these are clear for the readers of the risk register. Refresher training for risk management is planned for 2025 and the documentation of controls will be given some additional focus to assist with enhancing this are of the reports.
3	**Tracking of actions from budget monitoring meetings** The Council has indicated that a template is being developed to track the actions emerging from budget monitoring meetings held between the budget holders and Finance business partners. We consider that such a template should be developed and implemented, as this will assist with monitoring and addressing emerging pressures and/or unexpected variances in financial performance.	This action is being implemented following a recommendation from the Internal Audit Team. The team will be introducing this for the 2025/26 financial year, where a new log will be created to run alongside the financial monitoring reports.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

We considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

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