



Title of report: External Auditor's Annual Report 2025/26

Meeting: Audit and Governance Committee

Meeting date: Tuesday 29 September 2026

Report by: Director of Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To present to the Audit and Governance Committee the External Auditor's Annual Report 2025/26 for information and discussion.

Recommendation(s)

That:

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

Alternative options

1. There are no alternative options. The auditors Annual Report forms part of the statutory external audit of the council.

Key considerations

2. The external auditor's draft Annual Report for 2025/26 is attached at Appendix A. Under the National Audit Office (NAO) Code of Audit Practice, the external auditor is required to consider whether the Council has put in place proper arrangements around financial sustainability, governance and to secure economy, efficiency and effectiveness in the use of its resources. The Annual Audit Report looks back over the 2025/26 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2025/26 audit.

3. As well as reporting on overall arrangements, the external auditor has considered whether there were any significant risks or weaknesses in the arrangements in place. The report includes the external auditor's findings together with their recommendations as to how any weaknesses identified can be addressed.
4. Key recommendations relate to significant identified under the NAO Code of Audit Practice and set out the actions the council should take, but don't require a published written response. Improvement recommendations are not as a result of significant weaknesses identified; these, if implemented, should improve arrangements in place.
5. Across the public and private sectors, the Financial Reporting Council (FRC) has set out is expectation of improved financial reporting and the requirement for auditors to demonstrate increased scepticism and challenge; to undertake additional and more robust testing referred to as 'raising the quality bar' of audit.
6. The report focuses on the arrangements in place during the financial year ended 31 March 2026 under three key themes: financial sustainability, governance and improving economy, efficiency and effectiveness in the use of resources.

Financial Sustainability

7. The auditor's work considers the council's arrangements to identify risks to financial resilience, financial pressures and funding gaps as well as the robustness of financial planning and monitoring activity to support strategic priorities.
8. In this area, the report notes that there are no significant weaknesses or improvement recommendations in respect of arrangements for financial planning, alignment of financial plans to other workforce, capital, investment and operational plans and in identifying and managing risks to financial resilience. The auditor's work included a review of financial reporting and risk management activity.
9. The assessment of the council's financial sustainability arrangements identifies 2 key recommendations in relation to: (1) the council's Dedicated Schools Grant (DSG) deficit position and (2) plans to bridge future funding gaps and identify achievable savings.
10. The key recommendation in respect of the council's DSG deficit position highlights continuing uncertainty in the reform of SEND funding from central government and the impact on the council's future deficit position. The council submitted its SEND Reform Plan to the Department for Education in June 2026 and will continue to monitor and report the impact of identified mitigations.
11. The key recommendation in respect of the council's estimated future funding gaps advises that the council should accelerate delivery of its transformation programme to support a multi-year savings programme.
12. An improvement recommendation has been made in respect of the organisational capacity and capability to deliver the council's programme of change.

Governance

13. The auditor's work considers how the council monitors and assesses risk, approaches and carries out its annual budget setting process, ensures effective processes and systems are in place to ensure budgetary control and report management information, ensures it makes properly informed decisions supported by appropriate evidence and how it monitors and ensures appropriate standards are met.

14. In all areas tested in respect of the council's governance arrangements, no significant weaknesses or improvement recommendations have been identified.
15. Testing completed confirms effective arrangements for risk management and counter fraud reporting, budget development and consultation, timely and comprehensive financial reporting, transparency of information to support decision making and appropriate behaviours and standards.

Improving economy, efficiency and effectiveness in the use of resources

16. The auditor's work considers how the council uses financial and performance information to assess performance and identify areas for improvement, delivers and engages in partnership relationships to meet objectives and how it commissions or procures services to assess delivery of expected benefits.
17. In this area, the report acknowledges the transformation and improvements made in the delivery of children's services; noting that structured improvement plans are supported by appropriate governance, ownership and monitoring arrangements. The prior year improvement recommendation has been removed and a good practice insight on the council's approach to improving children's services has been raised. This finding supports the Ofsted 'Good' rating in January 2026 and removal of the statutory direction.
18. In respect of arrangements to commission or procure services, the auditor's work confirms that the council has effective arrangements in place to manage and review commissioned services and contract and highlights the procurement of the new public realm services contract as an example. The auditor's assessment highlights that alternative delivery options were considered, alongside risks, benefits and implementation arrangements, and decisions were supported by legal and technical advice.
19. An improvement recommendation has been made in respect of performance monitoring and reporting arrangements to strengthen accountability and enable more effective scrutiny and challenge by Cabinet and the public.

Follow up of previous key recommendations

20. The auditor's work in 2024/25 identified 2 key recommendations in respect of: (1) the council's DSG deficit position and (2) governance and oversight of capital programme procurement decisions.
21. The key recommendation highlighting the DSG position has been updated and raised in 2025/26 as noted in paragraph 10 above.
22. The key recommendation, identifying actions to improve the governance and oversight of major and capital projects, has been closed noting arrangements to address weakness have been implemented.

Community impact

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

Environmental impact

24. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
25. Whilst this is a progress report on back-office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy. For example, the external audit will be mostly completed remotely, reducing travel impact and paper usage.

Equality duty

26. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
27. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Resource implications

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

Legal implications

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

Risk management

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

Consultees

31. None.

Appendices

Appendix A: Auditor's Annual Report on Herefordshire Council 2025/26

Background papers

None identified.