

Audit Findings (ISA 260) Report for Herefordshire Council

Year ended 31 March 2026

24 September 2026

Herefordshire Council

Plough Lane
Hereford
HR4 0LE

24 September 2026

Dear Members of the Audit and Governance Committee

Audit Findings for Herefordshire Council for the year ended 31 March 2026

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Grant Thornton UK LLP

2 Glass Wharf,
Bristol,
BS2 0EL
+44 (0)11 7305 7600
www.grantthornton.co.uk

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2025-.pdf \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2025-.pdf).

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

Grace Hawkins

Director
For Grant Thornton UK LLP

Chartered Accountants

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Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Herefordshire Council (the 'Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2026 for the attention of those charged with governance.

Financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to report whether, in our opinion, the group and Authority's financial statements:

- give a true and fair view of the financial position of the group and Authority and the group and Authority's income and expenditure for the year
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed during June-September. Our findings are summarised on pages 8 to 47. We have not identified any adjusted misstatements, and therefore there are no changes to the draft Comprehensive Income and Expenditure Statement. We have identified a number of unadjusted misstatements which have been reported on pages 30-33.

We have also raised recommendations for management, set out on pages 36-42, and reported our follow up of prior year recommendations on pages 43-47.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion. Pending receipt of signed financial statements, Annual Governance Statement and Letter of Representation we hope to issue our opinion following the Audit and Governance Committee on 29 September 2026.

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

Headlines

Value for money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

We have completed our VFM work. Detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We have identified two significant weaknesses in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Please refer to the separate Auditor's Annual Report (AAR) for full details.

Headlines

Statutory duties

The Local Audit and Accountability Act 2014 (the ‘Act’) also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act
- certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2026 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received confirmation from the National Audit Office that the audit of the Whole of Government Accounts is complete for the year ended 31 March 2026. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2026.

Significant matters

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

Group audit

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.

The table below summarises our final group scoping, as well as the status of work on each component.

Component	Risk of material misstatement to the group	Scope – planning	Scope – final	Auditor	Responsible Individual	Status	Comments
Herefordshire Council	Yes	Scope 1	Scope 1	Grant Thornton UK	Grace Hawkins	●G	All audit work is now complete.
Hoople Ltd	Yes	Scope 2	Scope 2	Williamson and Croft Audit Ltd	NA	●G	The only balance held in Hoople Ltd.'s accounts which is material to the group financial statements is their employee benefits expenditure. This balance alone has been tested in full by the group audit team (Grant Thornton UK) to ensure sufficient appropriate audit evidence over the group balances. No reliance has been placed on the component auditor. No issues have been identified from our work performed.
Cyber Quarter Ltd	No	Out of Scope	Out of Scope	NA	NA	NA	CQ are not consolidated on the basis of not being material.

Key

[Scope 1]	Audit of entire financial information of the component, either by the group audit team or by component auditors (full-scope)
[Scope 2]	Specific audit procedures designed by the group auditor (specific scope)
[Scope 3]	Specific audit procedures designed by a component auditor (specific scope)
Out of scope	Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.
●G	Planned procedures are substantially complete with no significant issues outstanding.
●A	Planned procedures are ongoing/subject to review with no known significant issues.
●R	Planned procedures are incomplete and/or significant issues have been identified that require resolution.

Our approach to materiality

As communicated in our Audit Plan dated, we determined materiality at the planning stage as £13.150 million and group materiality as £13.330 million based on 2.5% of prior year gross expenditure. At year-end, we have reconsidered planning materiality based on the draft financial statements. Based on this we have not updated materiality from our planning levels as the movement would have been within our 10% threshold.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

We have determined materiality at £13.150 million for the Council and group materiality at £13.330 million based on professional judgement in the context of our knowledge of the Authority and the group, including consideration of factors such as ownership concentration, debt arrangements, the business environment, and the control environment.

We have used 2.5% of gross expenditure as the basis for determining materiality.

The benchmark and percentage applied in determining materiality reflects the nature of the Council's primary objectives and has been considered appropriate.

The percentage applied has been increased from 2% applied in the prior year, following an update to Grant Thornton internal guidance and the Council no longer being classed as a Major Local Audit (MLA), as the threshold has been raised for 2025/26.

As stated above, the materiality is the same as communicated in our audit plan and so is based on 2.5% of the prior year's gross expenditure.

Performance materiality

This has been set between £8.860 million for the Council and £5.130 million for the group. The level applied reflects the relative size and risk of that component within the group.

Specific materiality

A lower materiality has been determined for the senior officers' remuneration disclosure. This has been set at £10,000 per individual officer, which covers 2 bandings in the disclosure.

Reporting threshold

We will report to you all misstatements identified in excess of £0.650 million, in addition to any matters considered to be qualitatively material.

Our approach to materiality

A summary of our approach to determining materiality is set out below.

	Group (£)	Authority (£)	Qualitative factors considered
Materiality for the financial statements	13,330,000	13,150,000	Financial statement materiality is based on 2.5% of the prior years gross cost of services expenditure.
Performance materiality	5,130,000	8,860,000	Performance materiality is based on 70% of financial statement materiality.
Specific materiality for individual senior officers' remuneration disclosure	10,000	10,000	We consider the disclosure of senior officers' remuneration to be a sensitive disclosure and therefore have applied a lower materiality.
Reporting threshold	660,000	650,000	Triviality is set at 5% of financial statement materiality.

Overview of audit risks

The below table summarises the significant and other risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor’s judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Management override of controls	Significant	↔	✓	Medium	G
Valuation of land and buildings	Significant	↔	✗	High	G
Valuation of investment properties	Significant	↔	✗	High	G
Valuation of the pension fund net asset/liability	Significant	↔	✗	High	G
The revenue cycle include fraudulent transactions	Rebutted	↔	✓	Low	G
The expenditure cycle includes fraudulent transactions	Rebutted	↔	✓	Low	G
Dedicated Schools Grant expenditure	Other	↑	✗	Low	G

- ↑ Assessed risk increase since Audit Plan
- ↔ Assessed risk consistent with Audit Plan
- ↓ Assessed risk decrease since Audit Plan

- G Not likely to result in material adjustment or change to disclosures within the financial statements
- A Potential to result in material adjustment or significant change to disclosures within the financial statements
- R Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks

Risk identified	Audit procedures performed	Key observations
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumption 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.	We have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • reviewed and tested intragroup journals where relevant	<u>Journals:</u> In total we selected 27 journals to test following our assessment that the Council has a low-risk control environment in this area. All journals have been tested back to source documents to ensure that they are valid business-related journal entries. Our audit work has not identified any issues relating to management override of controls. We have identified several control deficiencies in relation to journals. More detail can be seen in our action plan on page 36 and our review of prior year recommendations on page 43. These are low risk issues and do not impact on our opinion. <u>Estimates and Judgements:</u> We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology. Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of land and buildings The Council revalues its land and buildings on a rolling five yearly basis in line with the requirements of the CIPFA code. The Council employs Wilks Head and Eve as experts to perform the valuations for most assets. Valuations of the Councils jointly owned Energy for Waste Plant are carried out by a separate valuation expert called Hilco. The valuation of land and buildings represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.	We have: • documented our understanding management’s process and controls for the calculation of the estimate • evaluated the competence, capabilities and objectivity of management’s expert • evaluated the consistency of the disclosure with the valuation report • evaluated the basis on which the valuations have been carried out • evaluated the information and assumptions used by the valuer • evaluated the accounting entries for the valuation • the 2025/26 CIPFA Code introduced a new revaluation expedient for Property, Plant and Equipment, requiring assets to be revalued at least every five years, or on a five-year rolling programme, with interim years supported by indexation. We have reviewed management’s assumptions in selecting and applying indices to ensure that both the chosen indices and the asset groupings are appropriate.	Primary Revaluations Testing: We selected 6 assets to test giving us a coverage of 63% of the total asset value. Our testing did not identify any significant issues, and no material misstatements were noted. As in prior years we have identified variances in the floor and land areas used. In addition, an error was noted relating to the incorrect build year on one asset. Though not significant, these have resulted in an unadjusted misstatement reported on page 31-33. Assets Subject to Indexation: 108 assets with a total year end value of £279.5 million were subject to indexation in 2025/26. We have reviewed the indices recommended by the valuer and found the indices to be reasonable. We have raised a control point around the use of indices for specialised assets where we identified the valuer used the incorrect time horizon on the recommended BCIS indices. On recalculation we found that using the correct time horizon would result in a £1.1m greater valuation on specialised assets. Please refer to page 31 for more details where we have reported as an unadjusted misstatement. This has also been reported as a recommendation on page 36. Continued overleaf

Significant risks

Key observations (Continued)

Excluding specialised assets above, across all other asset classes we identified a potential overstatement of £0.9m when using our own indices. On surplus assets the difference was £0.118m understatement. This is not an error and represents an estimation difference only and so has not been reported as such. Overall, we have concluded that the indices used are reasonable and have been correctly applied.

Energy for Waste Plant Indexation:

In addition, the Council jointly owns the Energy for Waste asset which has been subject to indexation in 2025/26. This asset last received a full valuation in 2024/25. On review, we identified that the indices used for this asset are reasonable and in line with expectations. However, we have reported an unadjusted misstatement on page 31 relating to the incorrect calculation of the indexation movement. This amounted to a £0.4m understatement of the asset and is reported alongside the previous indexation error noted above.

Assets with no Indices:

As part of the indexation exercise the valuer also is instructed to identify asset classes in which they are unable to locate suitable indices. There were 29 assets with a total value of £30.4 million in which the valuer could not identify any suitable indices. These included car parks, care homes, children's centres, public conveniences and amenity land.

We have concluded that we agree that there are not specific indices for these asset types. We have performed a review using general indices for these asset types and found a potential understatement of £0.9 million on these assets. Again, this is an estimation difference rather than an error. Overall, we deem this to be reasonable.

These assets will be subject to a desktop valuation every third year.

Estimates and Judgements:

We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology. Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements

Significant risks

The below table summarises the various errors and differences identified across our PPE valuations work.

Land and Building Valuations – Table of Key Findings:	Impact:
Indexation Work (Errors)	
Error identified relating to incorrect indices for DRC assets	£1.1m Understatement
Error identified relating to incorrect indexation applied to the Energy for Waste Asset	£0.4m Understatement
	£1.5m Understatement (Reported on page 31)
Indexation Work (Estimation Differences)	
Indexed assets (Using auditors indices)	£0.915m Overstatement
Indexed Surplus assets (Using auditors indices)	£0.118m Understatement
Assets with no index (Using general indices)	£0.872m Understatement
	£0.075m Understatement (Not an error but included for information)
Primary Valuations Testing (Errors)	
Error identified relating to incorrect floor areas	£0.894m Overstatement
Error relating to build years that could not be evidenced	£0.696m Understatement
	£0.198m Overstatement (Reported on pages 32 and 33)

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of investment property The Council revalues its investment properties every year in line with the requirements of the CIPFA code. The Council employs Wilks Head and Eve as experts to perform the valuations for all investment property assets. The valuation of investment properties represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.	We have: • documented our understanding management’s process and controls for the calculation of the estimate • evaluated the competence, capabilities and objectivity of management’s expert • evaluated the consistency of the disclosure with the valuation report • evaluated the basis on which the valuations have been carried out • evaluated the information and assumptions used by the valuer • evaluated the accounting entries for the valuation • evaluated the reasonableness of the assumptions used to form the estimate	Our audit work has not identified any issues in respect of valuation of investment property.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of net pension liability The Council participates in a Local Government pension scheme administered by Worcestershire County Council. The Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. An actuarial valuation is performed every year by managements expert Hymans Robertson. The Authority's share of the pension fund net liability is £3.8 million The net position comprises a gross pension liability of £539.5 million, offset by gross pension assets of £647.6 million, and adjusted by £138.5 million in respect of the impact of the asset ceiling under IFRIC 14, (see below). The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code. We have therefore concluded that the methods and models used do not in themselves give rise to a significant risk of material misstatement- (continued on following page)	We have: • documented our understanding management's process and controls • evaluated the competence, capabilities and objectivity of management's expert • evaluated the consistency of the disclosure with the actuarial report • evaluated the reasonableness of the assumptions used to form the estimate • obtained assurances from the pension fund auditor on the underlying data shared by the fund to the actuary which has been used in the calculation of this estimate • reviewed the IFRIC 14 assessment carried out by the actuary and evaluate the reasonableness of the assumptions used as part of the assessment.	We have completed our testing on the actuarial figures and have reviewed the assumptions and methods used by the actuary Hymans Robertson. We have not identified any issued to bring to your attention. All assumptions used were in line with expected benchmarks. We have reviewed the IFRIC 14 calculation relating to the asset ceiling applied. Our view is that this has been correctly calculated and the actuary's method is reasonable. We have received the assurance letter from the auditors of Worcestershire Pension Fund. They have identified a factual error in the asset data for level three investments which has resulted in a £12.4m difference in the year end asset values reported. As Herefordshire Councils share of the funds assets is confirmed as 17%. The impact is £2.108m. This is therefore not a material issue. We have reported this as an unadjusted misstatement. The error has arisen because there was a drawdown in investments near year end and the Pension dms team were not informed until after the accounts were produced. (continued on following page)

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of [net pension liability (continued) The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. However, the actuarial assumptions used are the responsibility of the entity, based on the advice from the actuary. Small changes in the key assumptions (such as discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore identified valuation of the Authority’s gross pension liability as a significant risk. Where a net asset position exists, the Authority has also considered the impact of ‘IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset’. This introduces additional layer of complexity in determining an asset ceiling to apply. We do not deem the IFRIC 14 assessment to be a significant risk, as the approach is established and no prior issues have been noted.		Please note that the error would also likely impact the asset ceiling under IFRIC14 which would reduce the impact on the accounts. This cannot be known for sure without additional calculation from the actuary. Given the non material nature of the error, we do not consider that this is required. No other issues were noted from a review of the assurance letter received.

Significant risks

Risk identified	Audit procedures performed	Key observations
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 Council. 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 transactions, or immaterial nature of the revenue streams both individually and collectively.	We do not consider this to be a significant risk for the Council. During the audit we have not identified any issues which would cause us to amend this conclusion.
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 Council. We have considered the risk that expenditure may be misstated due to the improper recognition 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 transactions, or immaterial nature of the expenditure streams both individually and collectively. We have also considered the possibility of inappropriate capitalisation of revenue streams. Given the strong control environment and lack of any issues of this nature identified in previous years, we do not consider that a significant risk is warranted.	We do not consider this to be a significant risk for the Council. During the audit we have not identified any issues which would cause us to amend this conclusion.

Other risks

Risk identified	Audit procedures performed	Key observations
High Needs Stability Grant / DSG Deficit Support Grant During our final accounts audit, we updated our risk assessment in relation to recognition of DSG expenditure in relation to the High Needs grant that local authorities are expected to receive in 2026-27. The grant is intended to fund 90% of eligible DSG deficits, with the remaining 10% to be met by the Council, subject to approval of the Council's recovery plan. We identified a risk relating to the recognition and classification of DSG expenditure. Specifically, there is a risk that expenditure may be inappropriately allocated to the DSG unusable reserve, resulting in costs being included within the scope of the High Needs grant that may not meet the relevant eligibility criteria.	We have: • Reviewed managements processes and controls around the recognition and classification of DSG related expenditure • Tested a sample of DSG spend to ensure appropriate classification as well as ensure that the spend has occurred • Reconciled the full years listing of DSG related spend to the ledger to ensure completeness • Considered the need for the recognition of a contingent asset in the Council's accounts to account for the grant at year end.	We have completed our testing of DSG spend and we have not identified any issues.

Other findings – Information Technology

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

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Unit 4 (Business World) General Ledger and Payroll	ITGC assessment (design and implementation effectiveness only)	Green	Amber	Green	Green	Management override of controls; valuation of PPE and IP; valuation of pension liability

Assessment:

- [Red] Significant deficiencies identified in IT controls relevant to the audit of financial statements
- [Amber] Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- [Green] IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- [Black] Not in scope for assessment

IT Control Findings

Our testing of the IT systems at the Council identified one non-significant control deficiency. This is detailed below:

Assessment	Issue and risk	Recommendations
● Low	From our discussions with management, we have identified a deficiency around the controls to manage user access. It has been noted that although there is an annual user review i.e. a review of users who have access to the system to ensure that individuals have the correct levels of access, this is not formally documented or evidenced.	We recommend that that this process be formally documented in the future in order that it can be evidenced for audit inspection. Management response Management will ensure that this review is evidenced going forwards.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Other communication requirements

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period, and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	The principal laws and regulations with which the local authority complies include, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Accounts and Audit (Amendment) Regulations 2024 and the Local Government Act 2003. We are not aware of any significant incidences of non-compliance.
Written representations	Representations have been requested from management including representations in relation to significant accounting estimates. This is included as a separate item in the agenda. No issues have been noted.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority’s banking and treasury partners. This permission was granted and the requests were sent. All but one were returned with positive confirmation and we undertook alternative procedures for the other which related to a loan balance with Dexia. No issues were noted.
Disclosures	Our review found no material omissions in the financial statements.
Significant difficulties	We did not identify any significant difficulties.
Other matters	There are no other matters to bring to your attention.

Other responsibilities

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. (continued)

Other responsibilities

Issue	Commentary
Going concern	Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority’s financial reporting framework • The Authority’s system of internal control for identifying events or conditions relevant to going concern • management’s going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Other responsibilities

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • if we have applied any of our statutory powers or duties • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Our work has not yet commenced as we await auditor instructions from the NAO.
Certification of the closure of the audit	We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2026 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received confirmation from the National Audit Office that the audit of the Whole of Government Accounts is complete for the year ended 31 March 2026. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2026.

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusted misstatements and therefore there is nothing to report in this area.

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Misclassification or change identified	Adjusted?
Review of draft financial statements	During our initial review of the draft financial statements, we noted the following: 1. Several notes were identified with missing text such as page 15 in the narrative report where the figures for useable reserves were missing. In addition, notes 8 and 9 had missing text, management confirmed this was an issue with the PDF and will be included in the final version. 2. In the narrative report, on page 17 the page numbers for the group accounts are stated as 92 to 97, however these are on pages 92 to 98. 3. On page 87 in the technical annex 2.4, the prior year comparative is incorrectly dated as 2026 when it should be 2025.	Yes
Capital Commitments – Note 19.4	We identified that two capital commitments had been excluded from the disclosure despite contractual commitments having been entered into by the Council prior to the year end. The contracts in question are with Tarmac Trading Ltd for an amount of £2.17m and FCC Recycling Ltd for an amount of £1.04m	Yes

Audit adjustments

Misclassification and disclosure changes (Continued)

Disclosure	Misclassification or change identified	Adjusted?
Pension notes	As part of our approach to reviewing the actuary's methodology, we have identified that the actuary has not included any allowance in their calculations for the Virgin Media Ltd v NTL Pension Trustees II Ltd. Although we agree that this is a reasonable approach, we have determined that best practice is for a disclosure to be included in the accounts for this area. Management have agreed to include additional narrative in their pension note regarding this. For context, the case affects defined benefits schemes that provided contracted out benefits before 2016. Changes to this scheme between 1996 and 2016 required an actuarial certificate in line with Section 37 of the Pension Scheme Act 1993 and that changes without this certificate could be considered void. The case was taken to the Court of Appeal in 2024 and the original ruling was upheld. In June 2025 the government said it would introduce legislation to give affected pension schemes the ability to retrospectively obtain the written actuarial confirmation that historic benefit changes met the necessary standards. This has recently been passed.	Yes
Revaluation table – Note 19.2	We identified several disclosure errors where the council confirmed that certain assets had been presented in the incorrect category in this note. This was identified when reconciling the table to the fixed asset register and the PPE note 19. Certain assets that had not been subject to indexation, with a carrying value of approximately £30.4m, were incorrectly included within the "assets where indices have been applied" category. As a result, the carrying value of revalued assets was understated at £142.9m (correct: £163.9m) and the carrying value of indexed assets was overstated at £336.4m (correct: £315.3m). The total carrying value of assets included in the rolling revaluation programme remains correctly stated at £479.3m and therefore there is no impact on the Council's Accounts. This represents a presentation and disclosure error only relating to the categorisation of assets within the note.	Yes

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
IAS19 Pension Actuarial Valuations: To ensure the draft accounts can be finalised within reporting timeframes, management commission two IAS19 reports. The first uses 10-month actual payroll data, with two months estimates. The second using a full 12 months actuals. The second report was received in May 2026, and we have reviewed this to ensure there is not a material difference. In summary, there is an overall net nil impact on the balance sheet.	NA	Dr Pension Asset 4,244 Cr Asset Ceiling Adjustment 4,244	NA	NA	Impact is net nil overall and the update is not material.
IAS19 Pension Actuarial Valuations: The auditors of Worcestershire Pension Fund in their assurance letter made us aware of a factual error whereby fund assets were overstated at year end. This occurred because there was a drawdown of investments just before year end, but this was not communicated to the Pension Fund team until after the accounts were finalised.	NA	Dr Pension Reserve Cr Pension Assets £2.108m	NA	Dr Pension Reserve £2.108m	Not material

Audit adjustments

Impact of unadjusted misstatements (Continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
Property, Plant and Equipment Indexation: Our testing identified two errors in the indexation performed; 1 – An understatement of £440k was noted relating to the Energy from Waste asset where management had incorrectly calculated the indexation uplift. 2 – An understatement of specialised assets valued under the depreciated replacement cost methodology of £1,087k was identified. This stemmed from the valuer's use of indices from Q2 2025 to Q1 2026 when they should have used Q1 2025 to Q1 2026 which would account for the whole year's movement. Note that we raised a separate recommendation on this point (See page 36)	Cr Other Comprehensive Income (OCI) £1,527k	Dr Land and Buildings £1,087k Dr Plant and Equipment £440k	NA	Cr Revaluation Reserve £1,527k	Impact is not material.

Audit adjustments

Impact of unadjusted misstatements (Continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
Property, Plant and Equipment Valuations: During our testing we identified five assets which had non-significant differences in the floor areas used in the valuation compared to the council's records. The floor areas in these cases were overstated which causes the value of the assets to be overstated. This has resulted in the following unadjusted misstatement in the accounts. Note that this is similar to that identified in the prior year on the pages below. Please note that the adjustments are a mix of factual and extrapolated errors.	Dr Service Expenditure £691k Dr Other Comprehensive Income (OCI) £203k Note – The debit to service expenses is due to some of the assets impacted having no revaluation reserve balance	Cr Land and Buildings £894k	Dr Service Expenditure £691k	Dr General Fund £691k Dr Revaluation Reserve £203k	Impact is not material.

Audit adjustments

Impact of unadjusted misstatements (Continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
<u>Property, Plant and Equipment Valuations:</u> During our testing of the obsolescence, we identified one asset (Hereford Grafton County Caravan Site Ross Road) for which we were unable to fully evidence the build year. The build year is an important element of the obsolescence calculation. The valuer had used 1980 as a build year and Council records indicated 1992. The implication is that if the Council's records are correct then too much obsolescence has been applied and the assets are understated. The error noted on this asset was £84k and extrapolated across the population the impact could potentially be £696k.	Cr Other Comprehensive Income (OCI) £696k	Dr Land and Buildings £696k	NA	Cr Revaluation Reserve £696k	Impact is not material.
Overall impact of current year unadjusted misstatements	Dr Services £691k Cr OCI £2,020k	Cr £779k	Dr £691k	Dr General Fund £691k Dr Pension Reserve £2,108k Cr Revaluation Reserve £2,020k	

Impact of unadjusted misstatements in the prior year

The table below provides details of misstatements identified during the prior year audit which were not adjusted for within the final set of financial statements for 2024/25, and the resulting impact upon the 2025/26 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2025/26 financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Please note, we have only included adjustments below which we deem have an impact on 2025/26. If there is none then we have not repeated it. For context there were four unadjusted misstatements in the prior years AFR.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Reason for not adjusting
<u>Invoices Received Testing:</u>					
We identified errors which on review could have caused a £721k overstatement of expenditure and creditor accruals in 2024/25. This would have no impact on the CIES, but the opening creditor position would remain overstated. Note that once these creditors are paid the impact will be nil.	NA	Dr Creditors £721k	NA	Cr General Fund £721k	Not material.
<u>Academy Cash Balances:</u>					
A misstatement of £1.557m has been included within the Council's cash balance which relates to schools that have become academies. Note this impacts the opening balances only, and no such issues of this nature were noted in our 2025/26 testing.	NA	Cr Cash £1,557k	NA	Dr Earmarked Reserves £1,557k	Not material.

Impact of unadjusted misstatements in the prior year

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Reason for not adjusting
Land and building areas We identified an error in two samples where the GIA which was used in the draft valuation changed which impacted the valuation by £636k. Note that this will impact the opening balance and in year balance if not resolved in the following valuation.	Dr Other Comprehensive Income (OCI) £636k	Cr Property, Plant and Equipment £636k	NA	Dr Revaluation Reserve £636k	Not material.
Impact of prior year unadjusted misstatements on the current year's financial statements	Dr £636k	Cr £1,472k	£0k	Dr £1,472k	
Cumulative impact of prior year and current year unadjusted misstatements on 2025/26 financial statements	Cr £693k	Cr £2,251k	Dr £691k	Dr £2,251k	Overall impact is not material.

Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	<u>PPE Valuations - Indexation:</u> In line with the updates to the code in 2025-26, the Council are required to uprate all land and building assets not included in the annual revaluation exercise using indices. For the indexation of depreciation replacement cost (DRC) land and buildings, the Council has applied BCIS indices by comparing Q2 2025 to Q1 2026 as advised by the valuer. However, based on our analysis, the appropriate comparison should have been Q1 2025 to Q1 2026. Although the resulting variance is trivial (£1,086k understatement of asset values), we have noted this as a control point to ensure the Council applies the correct indexation periods consistently in future valuations.	We recommend the Council instructs the valuer to apply the indexation method in this manner for future years. Management response Management do not accept this recommendation and are satisfied that the index used provides a reasonable estimate of the movement in the value of the asset from the prior year. This is a difference in estimation technique between the valuer and the auditors. The asset valuer provided indices over four quarters, this is common practice in the sector and is compliant with the Code of Practice which states that "the purpose of applying indexation to asset values is to ensure the value of an asset is kept materially up to date....Absolute precision is not expected, nor is it achievable. Authorities should ensure the index used provides a reasonable estimate of the movement in the value of an asset from the prior year.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Medium	<u>PPE Valuations – Build Years:</u> During our testing of the obsolescence, we identified one asset (Hereford Grafton County Caravan Site Ross Road) for which we were unable to fully evidence the build year. The build year is an important element of the obsolescence calculation. The valuer had used 1980 as a build year and Council records indicated 1992. The implication is that if the Councils records are correct then too much obsolescence has been applied and the assets are understated. For the asset in question, the value of the difference was £84k, we have reported the extrapolated value as an unadjusted misstatement.	We recommend the Council ensures that the build years of all their assets can be suitably evidenced and is in line with that used in the valuers calculations. Management response This is the first year that the build year of assets has been included in audit testing. We will review recorded asset build years and ensure this data is supplied to the asset valuer.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Medium	Journals Testing: Herefordshire Council uses the Service Organisation Hoople Ltd as part of their journal process. Specifically, the finance team within the Council can request journals to be posted by the Finance Support Team. We identified that where a journal is processed by the Finance Support Team (Hoople Ltd, the service organisation), the original requestor (i.e., the person who emailed the support team to post the journal) is not recorded in the GL. This does not accurately reflect the original requestor of the journal, but it should be noted there are controls in place such as email trails, which will be able to highlight this for us at Y/E. There is a risk that the information regarding the journal requisitioner may be hidden or lost.	We recommend that management implements controls within the general ledger to ensure that where journals such as these are posted, the identity of the individual who requested the journal to be posted is recorded. Management response There is no system ability to include the requestor in the journal entry. The evidence attached to the journal on the system includes the requestor, so it is contained within the system. It is important to note that journal testing did not identify and inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Medium	Journals Testing: During our analysis, we observed that journals are being posted with either inadequate or no description. Furthermore, Hoople employees do not always inquire with the journal requestor regarding descriptions or for further detail on what the journal may pertain to. The system allows the Journal to be posted without description, contrary to the journal user guidance. There is a risk that inappropriate journals may be hidden where a description is not included.	We recommend that management ensures that all journal posters are aware of the need for a description to be included and that controls are implemented to ensure descriptions are included. Management response There is no system ability to mandate a journal description in all cases. Management will re-circulate guidance. It is important to note that journal testing did not identify any inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Low	Cyber Quarter Loan: The Council holds a non-material loan balance (debtor) with the subsidiary Cyber Quarter for £3.5m. The amount has been held at the same value since 2019 when the loan was made. A review of the Shareholder Committee minutes indicates that Cyber Quarter has faced financial difficulties in recent years and has not been able to make repayments to the Council on this loan. The committee minutes indicate that the if the company was to be sold then the potential shortfall on the loan could be £1.3m. We challenged management as to whether an impairment should be recognised on the loan. Management have confirmed that in their view there is no impairment on the loan and that a sale of the asset is not currently definite. If no sale takes place management expect that the loan will be fully repaid.	We recommend that for future years management perform a full credit loss analysis on the loan in line with IFRS9 which makes clear that forward looking information should be taken account of. Whilst we agree that the amounts involved are not likely to be material, we recommend that wider reviews are undertaken in line with IFRS9. Management response This activity already takes place - a full credit loss analysis was performed, and information was provided to and tested by the audit team in 2025/26.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Low	<u>Review of Expected Credit Losses (ECL):</u> We understand that managements current approach to calculating their ECL is that they do not consider individual balances below £5m. Management have provided their reasoning and shown that the cumulative balances below £5m comes to around £6m. This includes for examples the Cyber Quarter loan in the previous point. Although this reasoning is sound in terms of materiality, we disagree that this method is in line with the relevant guidance, in particular The CIPFA code which states that probability of an ECL should be considered rather than the value of the assets involved.	We recommend that going forwards management update their process to ensure that all balances are considered for ECL. This ensures that no value will be missed. Whilst we agree that in 2025-26 the values are unlikely to be material, this is a best practice area. Management response See point above.
● Low	<u>Year End Estimations:</u> Within various areas of testing in 2025-26 we have identified instances where the estimate was different to the post year end outcome. Whilst this is expected as management base their accruals on the best available information, there are some instances where the difference is larger than we would expect. In our agency cost testing we identified an accrual which was £8k greater than the invoice eventually received. When extrapolated, the potential impact of this was £3m. This serves to over recognise expenditure in the current year and under recognise it in the next.	Whilst we are confident this is not a material issue, we recommend that management revisits their year end estimation procedures where these large variances are identified and put in place measures to ensure greater accuracy of the estimates. Management response As advised in previous years, 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. This is common accounting practice. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate recording

Action plan

Assessment	Issue and risk	Recommendations
● Low	<u>Related Party Disclosures:</u> We noted that the Council's policy states that the responsibility for updating declarations of interests falls on the councillors and members who are required to notify the monitoring officer and update their declaration of interests within 28 days of becoming aware of any change. Whilst this is in line with national guidance, this has led to many councillors having not updated their declarations for multiple years. Observed best practice from local authorities audits across our portfolio is where declarations are updated on an annual basis.	To ensure best practice and that no declarations have been omitted either intentionally or accidentally we recommend that the council implement an annual review and sign off process for everyone required to make disclosures. Management response The Council does not accept the recommendation to implement an annual review and sign-off process for all individuals required to make disclosures. The Council's Constitution and Code of Conduct make clear that the responsibility for maintaining and updating declarations of interest rests with individual elected members. The Council is satisfied that the mandatory training and guidance provided to councillors offers clear and unambiguous advice on fulfilling their responsibilities for keeping their registers of interests up to date. The Council is also satisfied that it continues to promote high standards of conduct, compliance (with the Code of Conduct) to support members in meeting their obligations. Taken together, these arrangements provide appropriate assurance that the Council's standards framework is operating effectively without the need for an additional annual sign-off process.
● Low	<u>Operating Leases:</u> During our testing of the operating lease disclosures, we identified that the signed lease agreement for Hereford Leisure Centre and Golf Course (Halo Leisure Ltd) was not available for review, as it remains with the Council's Legal team. The absence of a centrally accessible executed lease agreement increases the risk that key lease terms may not be readily available to support accounting assessments and financial statement disclosures.	We recommend that the Council maintain signed lease agreements in a central repository accessible to relevant finance, property and audit personnel. Management response Lease agreements are already accessible by relevant finance, property and legal personnel. This is a one-off issue.

Follow up of prior year recommendations

We identified the following issues in the audit of the Authority’s 2024/25 financial statements, which resulted in five recommendations being reported in our 2024/25 Audit Findings Report. We have provided an update on the progress of these audit recommendations below. Please note that where an audit recommendation is still in progress, we have not repeated it in the action plan section above.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Capital Financing Requirement (Medium Risk): We identified an immaterial £3.6 million potential overstatement in the reported capital financing requirement compared to our expected calculation. Management were not able to provide a suitable explanation for the variance identified and therefore we have concluded to treat it as an unadjusted misstatement. Risk Without a proper understanding of the issue, it is difficult to assess the impact on the financial statements.	Our testing of the Capital Financing Requirement in 2025/26 identified no issues other than a trivial difference between our calculated amount and the amount disclosed in the accounts. As a result, we conclude that management have resolved this issue and the recommendation can be closed.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journals Review Processes (Medium Risk): 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. 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. 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. 3. Not having journals approved can create opportunities for errors, misstatements, or fraudulent activities to go undetected. 4. Unapproved journal entries can result in inaccuracies in financial statements, potentially leading to misstated financial results and misinformed decision-making.	Our work in 2025/26 identified the same issue in that management still do not have secondary authorisation controls for all journals. A formal process is in place for those above £2m and individual journal lines above £250k. As a mitigating control management do operate monthly budget monitoring arrangements as well as segregation of duties controls to identify unusual or incorrect posted transactions. We recognise that management are somewhat limited by their accounting system to implement a full secondary authorisation system. In addition, resource constraints prevent management from reviewing all journals posted. However, given the risks involved we continue to recommend that management implement a system of secondary review of some, if not all, of the journals below the current threshold to mitigate the risks further. Management Comment: As confirmed in our management response in previous years, 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. It is important to note that journal testing did not identify any inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journals Review Processes (Medium Risk): For journals posted throughout the year which fall above the £2 million/£250k authorisation limit, 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.	During 2025/26 we have reviewed the control once again and identified that the same process in is place as in previous years, being a review which takes place on an excel spreadsheet. We recognise that management have made a number of improvements over the past several years e.g. adding information on the review timing and the reviewer to ensure there is evidence of review.
	Management have assured us that the review takes place in practice, however without any evidence of this we have not been able to verify if that is the case.	However, we still consider that this process of reviewing journals in a spreadsheet, outside the ledger system, is at risk of manipulation; although we recognise that the Council is limited by the functionality of their accounting system.
	Risk There is a risk that the expected review and approval of journals is not taking place in practice. Please see page 51 for a discussion of the risks associated with a lack of robust journals approval processes.	Management Comment: As confirmed in our management response in previous years, 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. It is important to note that journal testing did not identify any inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Cut Off Testing (Medium Risk): From our testing, we have identified several instances of the accruals concept not being appropriately applied. Although we are satisfied that the impact on the accounts is not currently likely to be material. Risk Not consistently applying the accruals concept presents a number of risks: 1. Not applying the accruals concept can result in misleading financial statements that do not accurately reflect the Authority's financial position and performance. 2. Inaccurate financial reporting resulting from not applying the accruals concept can hinder effective planning and decision-making. 3. Without the accruals concept, the valuation of assets, liabilities, and equity can be distorted, impacting the organisation's overall financial position and performance measures.	In 2025-26 our view is that the situation with regards to year end cut off has significantly improved compared to 2024/25. However, we did still note errors in our testing. Our testing of post year end invoices raised identified three instances where a year end accrual had not been made, leading to income being understated in 2025/26 by £175k. Following this we extended our testing and no further issues were noted. However, our view is that this recommendation is still open. Although we do recognise that the situation has improved. Management Comment: As confirmed in our management response in previous years, 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. This is common accounting practice. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate recording.

Assessment	
✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Property, Plant and Equipment Floor Areas (Medium Risk): We identified that incorrect floor area data had been used in the valuation of the property, plant and 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	Our work in 2025/26 identified the same issues. We identified five assets in which the floor areas have been overstated, directly causing overstatements in the valuations. Whilst this is not significant, we have reported an unadjusted misstatement in 2025/26. Our view is that this area remains not fully resolved. Management Comment: As confirmed in our management response in previous years, we have continued to review the floor area evidence to provide assurance over data integrity.

Assessment

- ✓ Action completed
- X Not yet addressed

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2026

The National Audit Office issued its latest Value for Money guidance to auditors in March 2026. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2025-26. Our draft AAR will be reported to you on 29 September Audit and Governance Committee. In undertaking our work, we are required 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.

In undertaking this work we have identified two significant weaknesses in arrangements relating to financial sustainability. Please refer to our separate Auditor's Annual Report for full details of our findings.

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 and network firms). In this context, there are no independence matters that we would like to report to you.

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. 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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence considerations

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

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Authority or 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 Authority or 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 Authority or 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 Authority or 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 Authority/group, 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 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 Standards 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 set out the total fees for audit and non-audit services that we have been engaged to provide or charged from the beginning of the financial year, 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. We confirm that the fees from non-audit services to the audited entity and its controlled entities do not exceed 70% of the total audit fee for the year.

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 from these fees.

Note that all fees shown are exclusive of VAT.

Audit fees	£
Audit of Authority (Scale Fee)	398,277
Additional Fee re IFRIC 14 Pensions work	3,000
Total	401,277

Non-Audit fees	Housing Benefit (£)	Teachers Pension (£)
Fees relating to 2021-22	58,698	7,500
Fees relating to 2022-23	91,511	10,000
Fees relating to 2023-24	72,750	12,500
Total	222,959	30,000

Please note the following:

- We are required to report to you all non audit fees which were either performed or billed within the audit period. For this reason, we have reported fees that relate to prior years audit services which meet these criteria.
- The non audit fees above represent total fees for that service which may have been billed over several years, a reconciliation with the draft accounts audit fees note in the accounts is on the next page.
- The fees for 2023-24 have not yet been billed, these are therefore estimated total fees. The work for these services is still in progress. Services for 2024-25 and beyond have not taken place up to the year end date and so are not reported here.

This covers all services provided by us and our network to the group /Authority, its senior officers 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.

Fees and non-audit services

The tables below show the total non audit fees as per the previous page but split between when they were disclosed in the financial statements. The difference arises due to when audit services are billed. Given that these services stretch over several years, the billing has taken place over the same period. We have colour coded the below to allow the figures to be traced more easily.

Non Audit fees	Housing Benefit (£)	Teachers Pension (£)		Totals (£)
Fees relating to 2021-22 (Presented in current year)		2,000	Per accounts note 18 (2025-26 Column)	29,000
Fees relating to 2021-22 (Presented in prior years)	28,698	5,500	Per accounts note 18 (2024-25 Column)	68,000
Fees relating to 2021-22 (To be presented in future years)	30,000		Presented in prior years accounts comparatives	63,146
Fees relating to 2022-23 (Presented in prior years)	28,698	10,000	Fees to be presented in 2026-27 note	92,813
Fees relating to 2022-23 (To be presented in future years)	62,813		Total	252,959
Fees relating to 2023-24 (Presented in current year)	27,000			
Fees relating to 2023-24 (Presented in prior years)	45,750	12,500		
Total	222,959	30,000		

Please note the following:

- There is £92,813 of fees relating to Housing Benefits for 2021-22 and 2022-23 has not yet been included in any Herefordshire Council accounts. This is because these represent additional fees upon the finalisation of these services which were billed post 2025-26-year end. As a result, these will have been paid in 2026-27, and we expect these to be disclosed in the 2026-27 accounts.
- All other fees are either disclosed in the current years accounts or have been disclosed in prior periods.

Fees and non-audit services

Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of housing benefit subsidy claim 2021-22	58,698	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £222,959 in comparison to the total fee for the audit of £401,277 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of housing benefit subsidy claim 2022-23	91,511	Self-review (because Grant Thornton provides audit services)	
		Management (as Grant Thornton reports to the grant paying body)	
Certification of housing benefit subsidy claim 2023-24	72,750		

These fees relate to prior periods but have continued to be delivered into 2025/26 and therefore, are included above. Note that the fee for 2023-24 has not yet been agreed but shown above is the best estimate. We intend to continue providing the service for 2024/25 and beyond, but no fees have been agreed or work completed.

Fees and non-audit services

Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of teachers' pension claim 2021-22	7,500	Self-Interest (because this is a recurring fee) Self-review (because Grant Thornton provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £30,000 in comparison to the total fee for the audit of £401,277 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of teachers' pension claim 2022-23	10,000	Management (as Grant Thornton reports to the grant paying body)	
Certification of teachers' pension claim 2023-24	12,500		
Total Non-Audit Fees	252,959		

These fees relate to prior periods but have continued to be delivered into 2025/26 and therefore, are included above. Note that the fee for 2023-24 has not yet been agreed but shown above is the best estimate. We intend to continue providing the service for 2024/25 and beyond, but no fees have been agreed or work completed.

Appendices

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Matters in relation to the group audit	●	●
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		●

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		
Non-compliance with laws and regulations		
Unadjusted misstatements and material disclosure omissions		
Expected modifications to the auditor's report, or emphasis of matter		

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

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

Respective responsibilities

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

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

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all relevant members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.



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