

## Supplement to the agenda

### Audit and Governance Committee

Tuesday 24 March 2026, 2.00 pm

Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE

#### Contents

Item	Title and purpose	Page(s)
10.	<b>Internal audit update report Q4 2025/26</b>  To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.  To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored through acceptance of agreed management actions and progress updates in implementing the action plans. In addition, occasions where audit actions not accepted by management are documented if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.  N.B Appendix A SWAP Internal Audit Progress Report Quarter 4 2025-26 – Paper to follow.	3 - 20





# Herefordshire Council

## Report of Internal Audit Activity

March 2026

## Contents

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- Contents:

Internal Audit Definitions

Audit Plan Progress

Finalised Audit Assignments

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- **No**
- **Limited**
- **Reasonable**
- **Substantial**



## Audit Framework Definitions

### Control Assurance Definitions

<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



## Audit Framework Definitions

### Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

	Categorisation of Recommendations
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management
<b>Priority 3</b>	Finding that requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

### Definitions of Risk

Risk	Reporting Implications
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.

# Audit Plan Progress 2025/26

OFFICIAL

Audit Type	Directorate	Audit Area	Status	Opinion	No of Agreed Actions	Priority			Comment
						1	2	3	
Governance	Community Wellbeing	CQC Inspection Readiness 2024/25	Final Report	Advisory	0	-	-	-	Reported in July
Operational	Economy and Environment	VFM Assessment – Public Realm Contract and Minor Works Framework 2024/25	Final Report	Low Reasonable	3	-	2	1	Reported in July
Operational	Corporate Services	Mutual Employment Resignation Scheme (MERS) 2024/25	Final Report	Low Substantial	0	-	-	-	Reported in October
Follow-Up	Corporate Services	Polygamous / Dual Employment 2024/25	Final Report	Advisory	0	-	-	-	Reported in October
Operational	Economy and Environment	Public Rights of Way 2024/25	Final Report	Mid Reasonable	3	-	1	2	Report in January
Key Financial	Corporate Services	Housing Benefit and Council Tax Reductions 2024/25	Final Report	Low Substantial	0	-	-	-	Report in January
Operational	Community Wellbeing	Temporary Accommodation	Final Report	Mid Substantial	1	-	-	1	Report in January
Operational	Economy and Environment	Transport Hub 2025/26	Final Report	High Limited	7	-	5	2	Report Included
Operational	Community Wellbeing	Adult Social Care - Discharge to Assessment (D2A) Pathway	Final Report	Advisory	0	-	-	-	Report Included
Core Financial	Corporate Services	Accounts Payable	Final Report	High Substantial	0	-	-	-	Report Included
Core Financial	Corporate Services	Bank Reconciliations	Final Report	High Substantial	1	-	-	1	Report Included

# Audit Plan Progress 2025/26

OFFICIAL

Audit Type	Directorate	Audit Area	Status	Opinion	No of Agreed Actions	Priority			Comment
						1	2	3	
Operational	Children and Young People	Dedicated Schools Grant (DSG) – High Needs Block 2024/25	Final Report	High Substantial	0	-	-	-	Report Included
Key Financial	Corporate Services	Council Tax	Final Report	Medium Limited	5	-	3	2	Report Included
Operational	Corporate Services	HUG2	Draft Report						
Follow-Up	Community Wellbeing	Court of Protection	Draft Report						
Core Financial	Corporate Services	Treasury Management	Draft Report						
Key Financial	Corporate Services	Payroll	Draft Report						
Key Financial	Corporate Services	NNDR	Draft Report						
Core Financial	Corporate Services	Accounts Receivable	In Progress						
Operational	Economy & Environment	Licensing	In Progress						
Operational	Economy & Environment	Public Protection	In Progress						
Operational	Children and Young People	Early Years Compliance	Audit Brief Issued						

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# Audit Plan Progress 2025/26

OFFICIAL

Audit Type	Directorate	Audit Area	Status	Opinion	No of Agreed Actions	Priority			Comment
						1	2	3	
Grant Certification	Economy and Environment	Bus Subsidy Grant	Complete						
Grant Certification	Economy and Environment	Local Transport Capital Block Funding Grant	Complete						
Follow-Up		Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement		Management of the IA Function and Client Support	On Going						
Other Audit Involvement		Contingency – Provision for New Work based on emerging risks							

Action Tracking

● Action Tracking

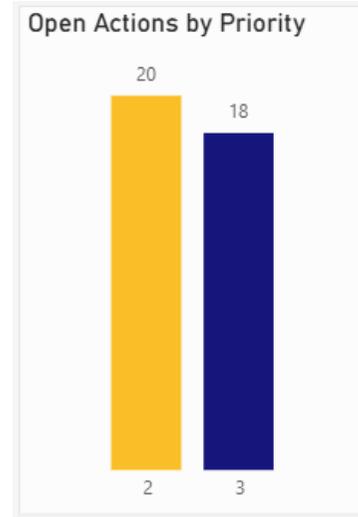
In Quarter 3, 40 Open Agreed Actions were reported for Herefordshire Council.

Since the Q3 report, 16 actions have been closed off, and 14 new actions have been agreed.

Therefore, there are currently 38 Open Agreed Actions. A breakdown of the current actions pending remediation, along with number per priority can be seen in the table to the right.

Work will continue to gain an update from responsible officers, and report updates to this Committee.

Any actions not remediated, will be discussed with officers and where appropriate, a revised timescale agreed.



Open Agreed Actions, by due date, are shown below.

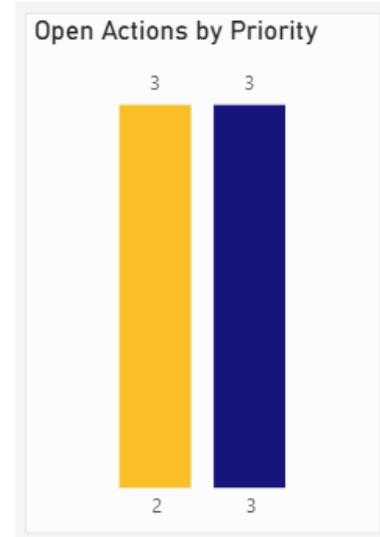
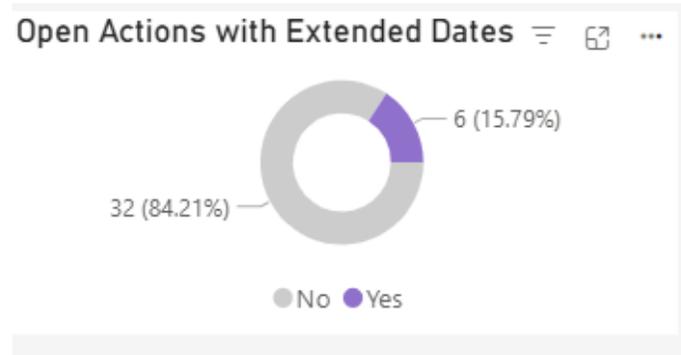
Not yet due	Due within 30 days	1-30 days overdue	31-60 days overdue	61-90 days overdue	91+ days overdue	Total Actions
12	3	(Blank)	(Blank)	4	19	38

The Open Agreed Actions are either being followed-up as part of an internal audit review, or as part of our follow-up process. 17 of the 19 actions that are 91+ days will be included full audits in the 2026/27 Internal Audit plan Internal Audit follow-up all agreed actions on a monthly basis.

## Action Tracking

- Action Tracking – Revised Timescales

Open Agreed Actions, with a revised timescale has reduced to 6 (quarter 3) (12 Quarter2)



The following are the Internal Audit reports, of each audit review finalised,  
since the last Committee update

## Transport Hub – Final Report – January 2026

**Audit Objective**

To provide assurance that the Transport Hub scheme is project managed efficiently and effectively, with good caretaking of budget and timing of deliverables.

**Executive Summary**

	<b>Assurance Opinion</b>		<b>Management Actions</b>		<b>Organisational Risk Assessment</b>	<b>HIGH</b>
	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.		<b>Priority 1</b>	0	Our audit work includes areas that we consider have a high organisational risk and potential significant impact.	
			<b>Priority 2</b>	5		
			<b>Priority 3</b>	2		
			<b>Total</b>	7		

		<b>Audit Scope</b>
	<ul style="list-style-type: none"> <li>The Contract Management Framework has not been adhered to due to lack of training and central oversight.</li> <li>The recording of project risks and issues requires review to ensure they are appropriately identified and monitored, with ownership of mitigating actions assigned to responsible officers.</li> <li>The Communications plans require review to ensure they are up to date and reflect the latest project timelines, with all key stakeholders included within the plan.</li> <li>Recording of Compensation Events in Cemar and Business World requires review to ensure the Council can demonstrate that approvals have been appropriately authorised and transactions are raised against the correct supplier.</li> <li>Regular reconciliation of budget information between Verto and Business World is required going forward to ensure costs are accurately recorded in all systems.</li> </ul>	We considered the following scope areas as part of this audit: <ul style="list-style-type: none"> <li>Project Management and Governance, including adherence to budget and timing of deliverables</li> <li>Contract management, including governance around compensation management and spending in line with funding agreements</li> <li>Stakeholder communication, specifically for the community, elected members, councillors, residents, and users of the station.</li> </ul>
	<ul style="list-style-type: none"> <li>The decision register requires review and updating to ensure all decisions are clearly recorded.</li> <li>A review of the Verto software contract is required to ensure it remains fit for purpose and value for money.</li> </ul>	
	Regular meetings occur between the project team and key stakeholders such as Finance and contractors.	

## Discharge to Assessment – Final Advisory Report – February 2026

### Advisory Audit – Overview – February 2026

This advisory audit was undertaken in response to a request for Internal Audit support by the Service Director for Adult Social Care and Housing. The objective of the engagement was to provide high-level advice regarding the current processes in place to ensure statutory requirements are met. A recent increase in demand for services, such as 65% of referrals coming from hospitals, has put significant pressure on the Adult Social Care budgets and the care system. The Adult Social Care team have requested this advisory audit be undertaken to assist them with identifying areas of process improvement to ensure services can continue to be provided in an efficient and effective manner.

Management have undertaken significant work since August 2025 to identify and improve the current Discharge to Assessment (D2A) processes. A Strategic and Operational Review was undertaken by the Partnerships and Better Care Fund Manager in November 2025 (whose role has since transitioned to the D2A Manager as of January 2026) which identified several areas of non-compliance with statutory regulation and best practice. An Action Plan was created, with progress against this plan monitored by the Service Director for All Ages Commissioning, Service Director for Adult Social Care and Housing, Associate Chief Operating Officer for Wye Valley NHS Trust (WVT) and Operational Executive Lead for One Herefordshire Partnership via a monthly D2A Board meeting. A draft Operational Framework has been developed as of January 2026 that sets out a comprehensive, and at present, aspirational framework for Herefordshire's D2A provision.

The recording, monitoring and reporting against statutory targets were reviewed in the following areas:

1. Timeliness of discharge
2. Assessment speed
3. Pathway flow
4. Quality and safety indicators
5. Care plan completion
6. Follow up and review
7. Collaboration and governance indicators
8. Patient and carer experience
9. Financial and resource management

Furthermore, a gap analysis was performed to address areas where the Action Plan and Operational Framework could benefit from clarification to ensure the actions and performance metrics identified achieve statutory compliance. While the recommendations relate to the gaps identified, for balance, we have included where management are taking steps to address the current D2A processes within our observations as they relate to the criteria identified during this engagement.

Conversations were held with key officers across the D2A teams within the Council and WVT to inform this advisory engagement, and we are grateful for the time they invested with us for this review.

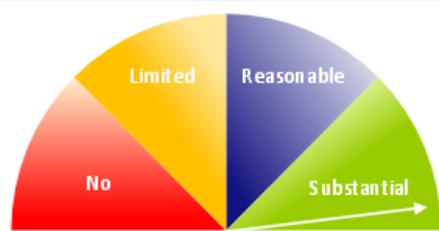
The summary of our key observations, was shared with officers, and provides detailed information and recommendations for the service areas to consider. These are not agreed actions, so no formal follow-up work will be undertaken. We will include an assurance audit of D2A for consideration in the 2026/27 internal audit plan.

## Accounts Payable – Final Report – March 2026

### Audit Objective

To ensure Accounts Payable system controls are operating effectively and in accordance with the Council’s Financial Rules, statutory requirements and best practice.

### Executive Summary



#### Assurance Opinion

The review confirmed a sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives.

#### Management Actions

Priority 1	0
Priority 2	0
Priority 3	0
<b>Total</b>	<b>0</b>

#### Organisational Risk Assessment

Low

Our audit work includes areas that we consider have a low organisational risk and potential impact.

### Key Conclusions

The following are examples of good practice observed during our audit:

- We evidenced segregation of duty within Accounts Payable processes.
- There is a ‘no PO, no pay’ policy, and BW controls reject processing payments where a purchase order has not been raised.
- Creditor master data is kept up to date and maintained regularly.
- Exception reporting is monitored daily effectively identifying duplicate and unusual transactions.
- BACs is run daily with S151 oversight.
- Reconciliations are balanced and appropriate approvals are in place.



### Audit Scope

This was an assurance audit where discussions were held with Officers and testing undertaken to support statements made.

We obtained an overview of the arrangements in place, including, but not limited to, a review of the following areas for the period covering 1 April 2025 to 31 October 2025:

- Policies and procedures,
- Management and Maintenance of the creditors master file,
- Purchase orders and payment processing,
- Exception reporting including identifying duplicate payments,
- BACs process,
- Segregation of duties and authorisation levels,
- Reconciliation to the general ledger.

### Other Relevant Information

There is frequent officer training within the Accounts Payable service ensuring business continuity in the event of staff absences.

Business World is the Councils main financial system and is supported by Proactis and NXG cloud-based software. Proactis helps to streamline and control spend, and NXG integrates with BW to identify errors, duplicates and potential fraudulent invoices before payments are finalised.

The Council implemented the Priority Supplier Programme (PSP) which is an early payment programme processed through Oxygen Finance. The Hoople Accounts Payable team are not involved in this process and therefore we have not reviewed controls associated with this method of processing payments. The Council may wish to consider a cost/benefit exercise if one has not been undertaken to help inform future activity.

There are no outstanding previous actions.

## Bank Reconciliation – Final Report – March 2026

**Audit Objective**

To provide assurance that core financial processes are operated in accordance with agreed policy/procedure and with the Financial Rules.

**Executive Summary**

	<b>Assurance Opinion</b>		<b>Management Actions</b>		<b>Organisational Risk Assessment</b>	<b>Low</b>
	The review confirmed a sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.		<b>Priority 1</b>	0	Our audit work includes areas that we consider have a low organisational risk and potential impact.	
			<b>Priority 2</b>	0		
			<b>Priority 3</b>	1		
<b>Total</b>		<b>1</b>				

**Key Conclusions**

	Audit can confirm the monthly bank reconciliation is completed in a timely manner, is appropriately authorised and is in accordance with the Financial Rules.
	Although the Councils Financial Procedure Rules set out generalised completion of reconciliations there are no clearly set timelines or deadlines. Having service specific deadlines for both feeder processes, completion and authorisation of all reconciliations, along with clearly set roles and responsibilities, will enable the authority to ensure service continuity and compliance with financial rules.
	Assurance of the management of Council Tax, Business Rates and Payroll suspense accounts has been achieved as part of the individual service 2025/26 audit reviews.
	Assurance of feeder system reconciliations to the general ledger has been achieved as part of the individual service 2025/26 reviews for Council Tax, Business Rates, Payroll, Direct Debits, Sundry Debtors and Accounts Payable.

**Audit Scope**

The audit reviewed the controls in place for the following:

- Frequency and accuracy of bank account reconciliations.
- Authorisation process for bank account reconciliations.

Scope Limitations

- Reconciliation of feeder systems to the general ledger.
- Suspense account monitoring processes.

**Other Relevant Information**

Although assurances have been sought from other key financial control reviews, in depth testing of suspense and feeder system reconciliation has not been completed as part of this review. Time has been taken to establish the ownership and structure of these two areas to assess controls in place with more in-depth testing being included as part of the 2026/27 key financial control reviews.

## Dedicated Schools Grant (High Needs Block) – Final Report – March 2026

**Audit Objective**

Provide assurance the Council have an effective control framework in place to manage and monitor the Dedicated Schools Grant (DSG) Deficit, specifically the High Needs Block, with a robust plan to manage the deficit if/when it is transferred back to general resources.

**Executive Summary**



**Assurance Opinion**

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.”

**Management Actions**

<b>Priority 1</b>	0
<b>Priority 2</b>	0
<b>Priority 3</b>	0
<b>Total</b>	<b>0</b>

**Organisational Risk Assessment**

**Medium**

Our audit work includes areas that we consider have a medium organisational risk and potential impact.

The key audit conclusions and resulting outcomes warrant further discussion and attention at senior management level.

**Key Conclusions**



The Council has a Deficit Management Plan which includes key and relevant information. Although there is a template provided by the Department of Education (DfE), they have advised that they are happy for authorities to shape and tailor their own plans as there is no model of best practice.



Key developments/progress and issues against the Deficit Management Plan are reported to the Budget Working Group and the Schools Forum.



Sample testing of expenditure from the High Needs Block demonstrated all spend was appropriate and was subject to appropriate governance which included robust processes ensuring spend is based on a child’s need.



The DSG deficit was highlighted as a risk in the 2024 Grant Thornton Annual Report. A recommendation was made that the Council needs to work and engage with schools, other stakeholders and partners to assist in reducing the deficit. Our review has confirmed that the Council has robust measures in place to manage the deficit plan and is widely engaging with key stakeholders.

**Audit Scope**

As part of this work:

- A review of the Deficit Management Plan to ensure it is effective in managing the dedicated schools grant deficit.
- Sample testing of funding streams from the High Needs Block to ensure spend was appropriate and approved.
- Review of reporting and monitoring processes of the dedicated schools grant position.
- Assurance that the Council has considered the deficit and the transfer of the deficit to the Council’s Ear Marked Reserves (including budget forecasting).

**Other Relevant Information**

This audit was conducted prior to the announcement of the High Needs Stability Grant, included in the Final Local Government Statement. The audit has identified that generally good governance is in place around the spending of the DSG for those children that have high needs. Sample testing confirmed that there are robust processes in place regarding the placement of children with high needs. The Council is facing challenges due to the increase in demand, however, the audit has demonstrated the Council is active in addressing these issues. Examples of this include: opening resource base provisioning to reflect the trends and challenges, managing the stakeholder relationships to with the schools rebuilding rounds, application for free school bids and the rebuild of Westfield school which will create more spaces and will be ready in April 27, use of the high needs capital grant strategically to create additional spaces (65 extra spaces in the last 18 months) which is all bringing down the high needs spend and manging the spend more effectively.

## Council Tax – Final Report – March 2026

**Audit Objective**

To ensure that key financial system controls are operating effectively for Council Tax and that opportunities for error, fraud or corruption are minimised.

**Executive Summary**

	<p><b>Assurance Opinion</b></p> <p>The review identified significant gaps, weaknesses, or instances of non-compliance. The system of governance, risk management, and control requires improvement to effectively manage risks to the achievement of objectives in the area audited.</p>	<p><b>Management Actions</b></p>		<p><b>Organisational Risk Assessment</b></p>	<p><b>Medium</b></p>
	<p><b>Priority 1</b></p>	0	<p>Our audit work includes areas that we consider have a medium organisational risk and potential impact.</p>		
	<p><b>Priority 2</b></p>	3			
	<p><b>Priority 3</b></p>	2			
	<p><b>Total</b></p>	5			

**Key Conclusions**

		<b>Audit Scope</b>
	<p>There are no scheduled or structured processes in place to review accounts that are subject to discounts and exemptions, including Single Person discounts which have no expiry date. The lack of a structured review process exposes the authority to the risk of fraud.</p>	<p>The audit reviewed the controls in place for the following:</p> <ul style="list-style-type: none"> <li>▪ Reconciliations of the Council Tax system to the General Ledger and cash receipting system, including suspense accounts;</li> <li>▪ Amendments to standing data for the annual Council Tax increase;</li> <li>▪ Reconciliation between the VOA and the Council Tax System;</li> <li>▪ Discounts and exemptions applied, including the arrangements for the new charges for empty properties and second homes;</li> <li>▪ Management of accounts with credit balances and credit write offs;</li> <li>▪ Access to the systems, permissions, leavers and amendments to standing data;</li> <li>▪ Notifications of new or altered properties.</li> </ul> <p><u>Scope Limitations:</u></p> <ul style="list-style-type: none"> <li>▪ Review of Council tax arrears, recovery and debt write offs;</li> <li>▪ Exception reports, amendments to bills and the regular review of suppressed accounts.</li> </ul>
	<p>A reconciliation is performed monthly of the Council Tax and NNDR system to cash receipting and the general ledger. Variances are recorded and the service area investigate any discrepancies. However, we could not find any evidence of management oversight or sign off of these reconciliations. Management checks support and confirm the accuracy of financial records, provide an audit trail, ensure fraud and error detection, and meet regulatory compliance.</p>	
	<p>There is no scheduled process in place to review accounts in credit. Excluding suspense accounts and Herefordshire Council accounts, a total of £873,590 of credit is being held on Council Tax accounts with some dating back to the 1993/94 liability year. At the time of this review, it was not possible to obtain a report to establish the number and value of refunds or credit write offs completed during the current financial year.</p>	
	<p>There are currently significant National delays (up to 12 months) for Local Authorities receiving banding information from the Valuation Office Agency (VOA). As Herefordshire Council does not have provisional banding in place for new properties, it means these properties are not being included in any billing or recovery processes, resulting in these accounts effectively accumulating arrears. As of September 2025, there were 526 unbanded properties, which if placed within Band A would result in £700,000 income per annum (equating to less than 0.5% of the overall £153 million Council Tax base). The Council is confident that existing controls are sufficient to monitor new properties, issue timely bills, and pursue council tax debts where appropriate, and therefore does not consider provisional banding to be a proportionate measure at this time.</p>	
	<p>Procedures for various processes, including VOA schedules and credit write offs, have not been reviewed / revised for several years. Out of date procedures will not reflect any changes to processes or changes in legislation. Procedure documentation is currently being migrated from server folders to Microsoft 365. The location of current documentation is subsequently unclear and requires organisation.</p>	

	<p>Hoople’s Access Control Policy (v2.3) states at 6.6.3 Access Review <i>“that Team Leaders will review members of their team group each month and key administrative groups and the department groups shall be reviewed every three months.”</i> A review of user access to the Revenues and Benefits system is undertaken every 6 months which ensures that all users are either current employees of Hoople or Herefordshire Council. Although not in accordance with policy, the checks cover the requirements of the policy.</p>	
	<p>The annual Council Tax increase for the 2025/26 liability year (including Parish and Precepts) was appropriately authorised at Full Council. To support this a selection of system parameters for the rate increases, band values and precepts were tested and found to be satisfactory.</p>	
	<p>CR10 notifications of completed building work from Herefordshire Council to the VOA were delayed by five months due to a national suspension caused by VOA system changes. Notifications resumed in July 2025, and the Revenues Team has cleared the backlog, bringing them up to date by November 2025.</p>	

**Other Relevant Information**

During 2024 preparation was undertaken to introduce a new charging structure for long-term empty properties and second homes. All properties affected by the change were informed in accordance with statutory notice. We can confirm that changes have been adopted as per policy.

Council Tax and NNDR suspense accounts are monitored daily, and where possible amounts are transferred to the correct account. The suspense account is reviewed monthly by the Revenues Manager in accordance with procedure.

