



Audit Completion Report

London Borough of Hackney – year ended 31 March 2025

For the meeting of the Audit Committee on 24 February 2026

Members of the Audit Committee

London Borough of Hackney

Hackney Town Hall

Mare Street

London

E8 1EA

12 February 2026

Dear Committee Members,

Audit Completion Report – Year ended 31 March 2025

We are pleased to present our Audit Completion Report for London Borough of Hackney (“the Council”) for the year ended 31 March 2025. The purpose of this report is to summarise our audit findings and conclusions.

This report is intended solely for members of the Audit Committee, as the appropriate sub-committee charged with governance, for the purpose of communicating certain matters that, in our professional judgement, are relevant to your oversight of the financial reporting process. To the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

We appreciate the courtesy and co-operation extended to us by London Borough of Hackney throughout our audit. We would be happy to discuss the contents of this report, or any other matters regarding our audit, with you in more detail.

Yours faithfully



Suresh Patel

Forvis Mazars LLP

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Our reports are prepared in the context of the 'PSAA Statement of Responsibilities of Auditors and of Audited Bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to London Borough of Hackney (the Council). It has been prepared for the sole use of the members of the Audit Committee as the appropriate sub-committee charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

01

Executive Summary

Executive summary

Scope

We have been engaged to audit the financial statements of London Borough of Hackney for the year ended 31 March 2025 which are prepared in accordance with the 2024/25 Code of Practice on Local Authority Accounting.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with the Code of Audit Practice.

Audit status

Our audit procedures are now substantially complete for the year ended 31 March 2025.

Please refer to the '*Status of our audit*' section for a list of significant audit matters outstanding at the date of this report. We will provide an update to members of the Audit Committee on completion of those outstanding matters by way of a follow-up letter.

Areas of focus and audit approach, and significant findings

Our significant risks and other areas of focus are set out in the '*Audit approach and risk summary*' section, with a summary of our audit approach over those areas. Significant findings from our audit are set out in the '*Significant findings*' section.

Significant control deficiencies

We have not identified any significant deficiencies in internal control. However, we have made two other observations where we consider management could improve their internal controls. Please refer to the '*Significant control deficiencies*' section.

Audit misstatements

We have identified misstatements in the draft financial statements that we need to report to the Audit Committee. At the date of this report, the Council has decided not to adjust six misstatements (one of which is an aggregate of six PPE valuation errors). We include a summary of the adjusted and unadjusted misstatements above our reporting threshold and identified to date in the '*Summary of misstatements*' section.

Audit opinion

At the time of issuing this report and subject to the satisfactory conclusion of our remaining audit

work, we anticipate issuing an unqualified opinion, without modification, as set out in Appendix C.

Value for Money

As previously reported to the Committee, we have identified significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. These issues have already been set out in the draft Auditor's Annual Report, including our detailed Value for Money findings. Further detail is also provided in the 'Value for Money' section of this report.

Wider reporting powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received one objection in the 2024/25 financial year which we did not deem to be eligible under the 2014 Act.

Reporting to the group auditor

We have yet to complete our work on the Council's WGA submission, in line with the group instructions issued by the NAO. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

Executive summary

Qualitative aspects of Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and conclude that they comply with the 2024/25 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 June 2025 and were of a good quality. Working papers provided by the Council were also of a good quality with clear supporting evidence.

Significant matters discussed with management

During our audit, we have discussed significant matters in relation to the valuation of Property, Plant and Equipment carried out by the Council's external valuation expert.

Significant difficulties during the audit

We have not encountered any significant difficulties and we have had the full co-operation of management.

Other matters of significance

We encountered no significant difficulties during our audit and had no significant disagreements with management. There was effective co-operation and communication between Forvis Mazars, management, and members of the Audit Committee during our audit. All requested information and explanations were provided to us.

Other matters we are required by ISA (UK) 260 *Communication with Those Charged with Governance* to communicate to you have been set out in Appendix E.

02

Status of the audit

Status of our audit

Our audit work is substantially complete. We set out the other outstanding matters below. We will verbally update Audit Committee members and in our follow-up letter.

Expenditure Testing

We have tested 41 of 42 samples selected and have one query outstanding for the remaining sample. Misstatements have been identified in relation to cut-off which have not yet been included in the summary of misstatements as until testing is finalised, we can not ascertain the projected misstatement value. We will update members in our ACR follow-up letter.



Property, Plant and Equipment Valuations

Our work in this area is near completion. We have no samples awaiting further evidence and are working to resolve queries on land valuation and methodology with the external valuer. We are finalising the work on the indexation of PPE not revalued at the balance sheet date. Please see Section 06 for details of misstatements and the related control finding.



We expect to conclude this work ahead of audit committee and will update members at committee and in our follow-up letter.

Cash and Cash Equivalents Testing

We are awaiting a response to one query relating to our omitted bank accounts testing, the rest of our audit work is complete with no material issues to report. We expect to conclude this work ahead of audit committee and will update members at committee and in our follow-up letter.



PFI and IFRS 16 Implementation

Our work on PFI, has now concluded and is subject to review. We did not identify any misstatements related to PFI schemes. Our work on other Leases is ongoing. We expect to conclude ahead of the Audit Committee. Please see Section 04 for further information.



Pensions

We have completed our work on pensions with no material issues arising. We are waiting for the assurance letter from the Hackney Pension Fund audit in order to conclude our work.



HRA

Our work is close to completion. We have one query outstanding regarding contributions towards expenditure. We do not anticipate material misstatements as a result of this query and have not identified any issues arising to date.



Group and Consolidated Accounts

We have reviewed the group boundary assessment, obtained audited accounts for subsidiary entities and expect to complete our work on the consolidation of group accounts next week.



Status

Status



Likely to result in a material adjustment or a significant change to disclosures in the financial statements.



Potential to result in a material adjustment or a significant change to disclosures in the financial statements.



Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.

Status of our audit

Final technical review procedures

We are currently completing our technical review of the final set of accounts provided to obtain assurance over the accounting disclosure made by the Council.



Events after the reporting period

Review of events after reporting period up to the point at which we sign the audit report.



Whole of Government accounts

We anticipate completing our work on the Council's WGA submission, in line with the group instructions issued by the NAO. We anticipate reporting that the WGA submission is consistent with the audited financial statements.



Final closure procedures

Following completion of the above final review procedures, we need to complete file closedown procedures, including receipt of management's letter of representation and complete our consideration of post balance sheet events to the date of sign off.



Status



Likely to result in a material adjustment or a significant change to disclosures in the financial statements.



Potential to result in a material adjustment or a significant change to disclosures in the financial statements.



Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.

Audit approach and risk summary

Audit approach and risk summary

Changes to our audit approach

We have made a minor change to the audit approach we communicated in our Audit Strategy Memorandum. This affects the level of performance materiality and specific materiality as set out below. There have been no other changes to the audit approach we communicated in our Audit Strategy Memorandum issued on 30 May 2025.

Materiality

Our provisional materiality at the planning stage of our audit was set at £24.1 million using a benchmark of 2% of gross operating expenditure as per the Audit Strategy Memorandum. Our performance materiality was £16.9 million based on 70% of provisional materiality. Our clearly trivial threshold above which we report was set at £723,000. The percentages used were in line with those used in the 2024/25 audit. During the interim stage of the audit, we revisited our materiality assessment having completed our walkthrough testing. We considered it appropriate to increase the performance materiality percentage from 70% to 75% due to the non-recurrent nature and low number of errors in prior periods, and because the control environment is relatively strong.

Based on the final financial statement figures, the final overall materiality we applied was £25.8 million final performance materiality 75%: £19.3 million; final clearly trivial threshold: £772,000).

In our audit strategy memorandum, we also reported that we apply a specific materiality for the testing of Officers' remuneration. We omitted to report that we also applied a specific materiality in relation to termination benefits testing of 20% of the total balance, and also to ensure that mathematically, the disclosure benefits had been included within the correct cost band.

Internal audit

We have not placed any reliance on the work performed by the Council's internal audit function. We have reviewed the function's work programme for the year and used this to inform and confirm our own risk assessment.

Use of experts

We have made use of three auditors' experts during our work.

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the work of PwC to identify any further 11 procedures that may be required with respect to defined benefit pension liabilities.

- Montagu Evans: The NAO appoint Montagu Evans to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.
- Forvis Mazars Real Estate Valuation team: We have engaged with our internal valuation experts to better challenge the approach and assumptions used by the Council's valuers.

Service organisations

The Council does not use service organisations in respect of items of account.

Group audit approach

There have been no changes made to our approach since we issued our ASM. The group is outlined below.

Component name	%	Auditor	Scope
London Borough of Hackney Council	> 99.9% of Gross Revenue Expenditure	Forvis Mazars LLP	Full audit carried out by auditor
Hackney Housing Company Limited	<0.1% of Goss Revenue Expenditure	Forvis Mazars LLP	Out of Scope. We note that a separate Forvis Mazars LLP audit team carries out a full audit of this entity.
Hackney PRS Housing Company Limited			
Hackney HLR Housing Company Limited			
Makers Management Company Limited			
Otto Management Company Limited			

We obtained the necessary assurances on each component by carrying out analytical review procedures of the consolidation balances and auditing the consolidation adjustment journals. At this stage we have no matters to report in respect of the Group audit.

Audit approach and risk summary

	Audit risk/ key area of judgement	Council	Group	Fraud risk	Judgement	Error	Substantive audit procedures	Tests of controls	Misstatement identified	Control recommendations	Conclusion	Page ref to finding
Significant risks	Management override of controls	●	●	●	●	●	●	○	○	●	Risk is satisfactorily addressed. Matters to be brought to the attention of members of the Audit Committee. Please see the significant findings section for two control deficiencies.	14
	Valuation of net defined pension liabilities			○	●	●	●	○	○	○	Our work is close to completion but cannot be concluded until the work on the Pension Fund audit is completed. At this stage, there are no matters to bring to the attention of members.	16
	Valuation of property, plant and equipment			○	●	●	●	○	●	●	Our work is close to completion but pending queries on land valuations and the valuation methodology. We have identified various immaterial but non-trivial misstatements and one material misstatement that is due to be adjusted. We have also identified that a control recommendation from prior year has not been fully implemented, so have made the recommendation again. Please see summary of misstatements section.	17
	Valuation of investment properties			○	●	●	●	○	●	○	Risk is satisfactorily addressed with one immaterial misstatement above triviality noted. Please see summary of misstatements section.	19
	Implementation of a new standard for accounting for leases – International Financial Reporting Standard (IFRS 16)			○	●	●	●	○	●	○	Our work is complete for PFI and close to completion for leases, pending queries on the final lease calculations. Matters to be brought to the attention of members of the Audit Committee. Please see summary of misstatements section.	20

Significant findings

Significant findings

The significant findings from our audit include our conclusions regarding the significant risks we identified and other key areas of judgement, which are set out in this section.

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements, considering whether there was any indication of management bias;
- Consideration of identified significant transactions outside the normal course of business; and
- Journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work is complete. We tested 116 journals that met our risk criteria, and we did not identify any indication of fraud or management override of controls. Please see the subsequent slide for further detail.

Despite all journals being satisfactorily tested, two matters arose which would indicate a risk of deficiency in internal controls:

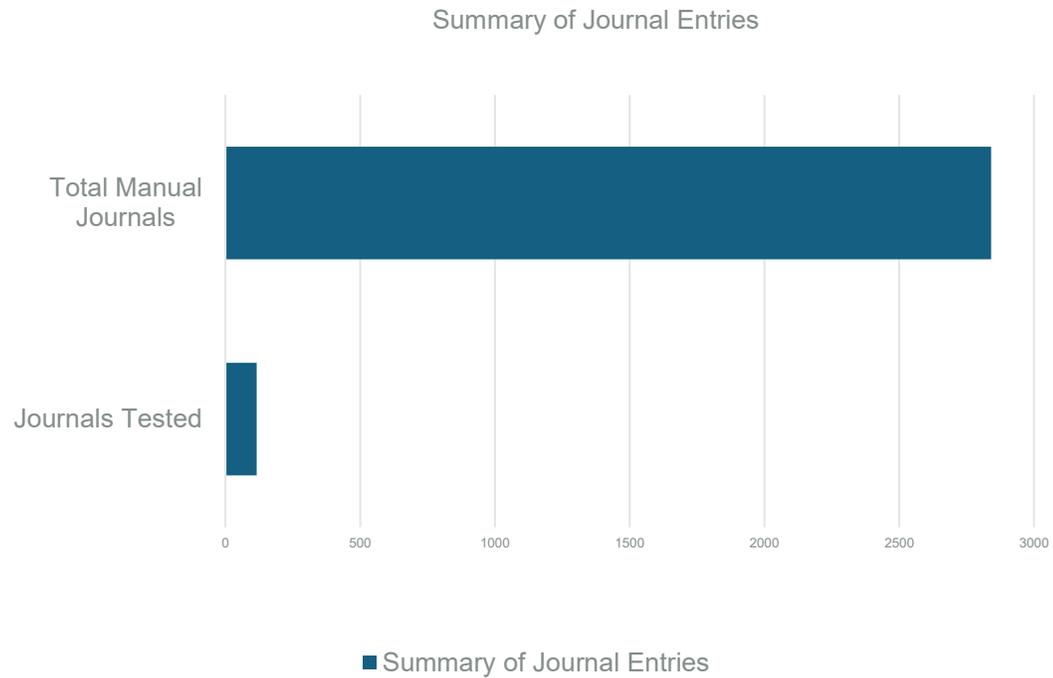
- A flaw in the CedAR e5 finance system allows the journal uploader's record to be overwritten with the journal reviewer's user ID. This creates an opportunity for segregation of duties controls to be overridden.
- We identified three journals where it was not clear that HRA works undertaken met the threshold for capitalisation under IAS 16. There was not adequate documentation of decision making or review of the works to determine these met the criteria.

These, along with our recommendations, have been documented fully in section 5 of this report as significant findings.

Analysis of work performed

The figure below highlights the spread of journals selected for testing across identified risk factors for our review. For 2024/25 the Council posted 2841 manual journals that impacted the general ledger. Our risk analysis identified 116 unique journals for testing for the reasons shown.

Our testing confirmed that all the selected items were valid journal postings.



Significant findings

Significant risks (continued)

Valuation of net defined pension liability

Description of the risk

The net pension liability represents a material element of the Council's balance sheet as the Council is an admitted body of the Hackney Pension Fund. For the 24/25 period, the net liability was £267,904k. This was made up of £266,412k with LBH Pension Fund and £1,492k with the LPFA.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2024/25.

How we addressed this risk

We have:

- critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;
- challenged the reasonableness of the Actuaries' assumptions that underpin the relevant entries made in the financial statements, using an expert commissioned by the NAO (PwC);
- critically assessed the competency, objectivity and independence of the Actuaries;
- liaised with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively;
- reviewed a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets.
- reviewed the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information.
- compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the NAO; and
- agreed data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.

Audit conclusion

We have completed our work on pensions with no material issues arising. We cannot conclude on this work until we receive the IAS 19 assurance letter from the auditor of Hackney Pension Fund. We expect to finalise our procedures ahead of the Audit Committee. We have noted an adjustment to the pensions reserves note identified during the testing of the Movement in Reserves Statement only.

Significant findings

Significant risks (continued)

Valuation of property, plant and equipment

Description of the risk

Where a Council's assets are subject to revaluation, the CIPFA Code requires that the carrying value should reflect the appropriate fair value as at the year end. Estimation of fair values is subject to complex estimation. This creates a risk that the carrying value of those assets revalued in the year are materially mis-stated. Land and buildings including Council dwellings are the Council's most valuable assets accounting for £2.492 billion of the Council's £4.760 billion Property, Plant and Equipment balance at 31 March 2025. In respect of Council Dwellings, these are predominantly reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by Government. Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.

How we addressed this risk

We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated and considered the robustness of that approach.

We also assessed the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that current values had moved materially.

In addition, for those assets which had been revalued during the year we:

- assessed the valuer's qualifications;
- assessed the valuer's objectivity and independence;
- reviewed the methodology used;
- performed testing of the associated underlying data and assumptions

Audit conclusion

Our work in this area is in final stages: we have tested 24 General Fund assets with a combined value of £373.7 million, 12 HRA assets with a combined value of £25.5 million and 25 HRA Beacon-valued assets with a combined portfolio value of £133.4 million. We have completed our testing apart from residual queries on land valuations. We expect to conclude this work ahead of Audit Committee and will update members.

To date we have noted an understatement of property plant and equipment of £8.4 million which has been adjusted and combined unadjusted overstatement of £3.1 million.. These were caused by errors carried out by the external valuer. We have provided further detail on each error in section 06.

We have also noted a calculation error made when indexing land valuations from the values at the date of the last valuation to that at the balance sheet date. We are finalising the value of this understatement but expect it to be in the region of £28 million. This error will be adjusted.

Significant findings

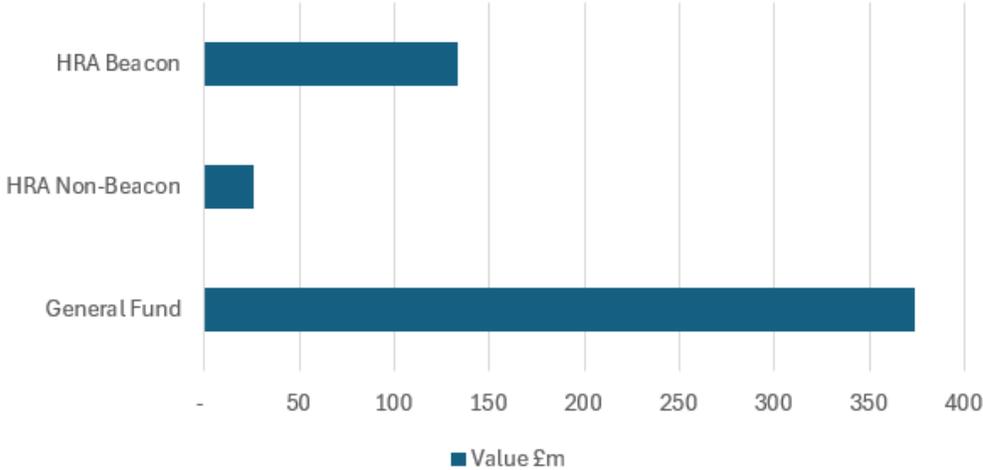
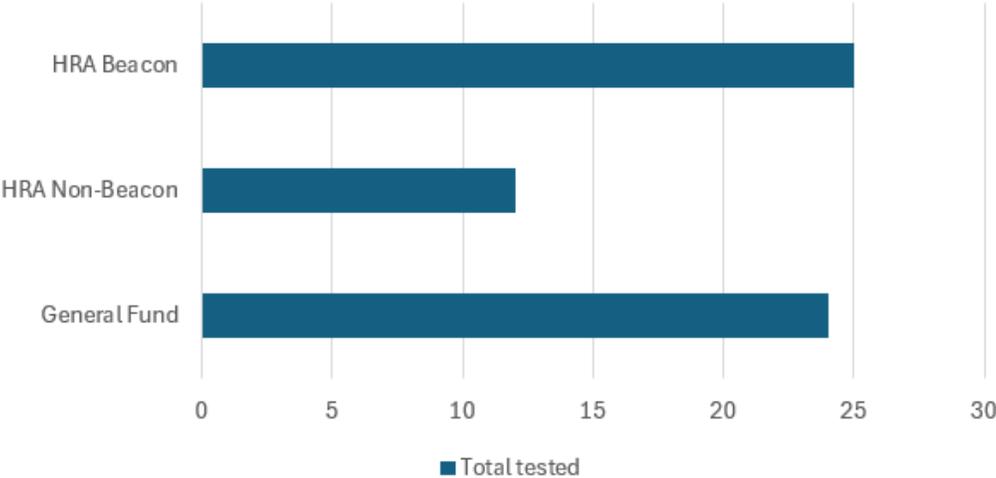
Significant risks (continued)

Valuation of property, plant and equipment

Analysis of work performed

We selected our sample sizes in line with our methodology for testing a significant risk. The graph below details the split of the total items tested into the different PPE categories:.

Number of samples selected by Type (Total 61, value £532.6m)



Significant findings

Significant risks (continued)

Valuation of investment property	Description of the risk The CIPFA Code requires that the carrying value of investment properties should reflect fair value. For the Council's £134 million of investment properties, as of March 2025 this is using fair value.
	Due to the high degree of estimation uncertainty associated with market, we have determined there is a significant risk in this area.
	How we addressed this risk We reviewed the Council's approach to revaluing its investment property portfolio as at 31 March 2025 and engaged our own expert to test a sample of properties to: <ul style="list-style-type: none">• Review the methodology used; and• For a sample, test the underlying data and assumptions. We have tested 14 samples totalling £79.1m out of a population of £134.0m.
	We challenged the Council's assumptions in respect of the factors and criteria that were used to determine the valuations – including floor areas, rental yields and assumed void periods.
	We have also agreed the data in the valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.
	Audit conclusion Our work in this area is now complete. We noted one understatement of £1.8m. This was caused by an input error we identified in one of the external valuer's calculations. The Council has opted not to adjust this error. Investment properties are revalued annually, so this will be corrected in the next period. Please see section 06 for detail.

Significant findings

Significant risks (continued)

Implementation of a new standard for accounting for leases – International Financial Reporting Standard (IFRS 16)

Description of the risk

IFRS 16 has been applicable from 1 April 2024 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Council held outstanding lease liabilities of £26.194m at 31/03/2024 (£2.695 million of finance leases, and £23.499 million of operating leases) and had £18.264 million of future minimum operating lease payments receivable at 31/03/2024. Outstanding PFI lease liabilities were £8.581 million at 31/03/2024. The Council is required to reclassify operating and finance leases, pass related adjustments and make disclosures in its 2024/25 accounts as required by IFRS 16.

How we addressed this risk

We reviewed the work that the Council carried out for the implementation of IFRS 16, including to PFI contracts.

We tested a sample of leases reported under IFRS 16 to confirm that the appropriate accounting treatment and disclosure had been applied in the 2024/25 accounts.

We reviewed and substantively tested the Council's PFI lease and related balances, obtaining evidence to support that it had been correctly classified and accurately measured under the new standard.

Audit conclusion

Our work on IFRS 16 with regard to PFI assets, has now concluded and is subject to review, with no misstatements noted.

For IFRS 16 leases, on review of the financial statements we identified that there was an error in the calculation of the £295.7 million adjustment used to bring Right of Use assets on the balance sheet as at 1 April 2024. On review of the calculations, we identified that nine peppercorn lease assets had been overstated by £242.7 million. Detail on this adjustment is given below. Before concluding, we will check that the appropriate entries have been made in the revised financial statements. This is an accounting adjustment and does not impact the General Fund and therefore Council Taxpayers.

The Council originally valued nine peppercorn leases by multiplying the estimated annual market rent over the length of the lease term. As peppercorn leases tend to be very long term (250-999 years), this resulted in a very large balance. In the public sector, Right-of-Use assets (RoU) or leases held at below market value, such as peppercorn leases, should be valued at the Fair Value of the asset, rather than the present value of the lease liability. The error was caused by the Council not discounting the total cashflows used in the valuation back to present value. Correcting the calculations brought the total valuation for RoU assets arising from peppercorn leases down to £4.4m.

We have also identified potential errors in the IFRS 16 calculations of the value of other leases. These are being discussed with the Council and we consider it likely that another non-trivial adjustment will be required. We will report to members our final conclusions in the audit follow up letter.

Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2024/25 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received one objection in the 2024/25 financial year which we determined was not eligible.

05

Internal control conclusions

Significant control deficiencies

As part of our audit, we obtained an understanding of the Council's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of the Council's internal controls, we are required to communicate to members of the Audit Committee any significant deficiencies in internal controls that we identified in during our audit.

Deficiencies in internal control

A deficiency in internal control exists if:

- A control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or
- A control that is necessary to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the London Borough of Hackney's internal controls relevant to the preparation of the financial statements to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the London Borough of Hackney's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported.

Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of members of the Audit Committee.

The significant deficiencies in the London Borough of Hackney's internal controls that we have identified as at the date of this report are in set out on the following pages.

Other observations

We also record our observations on the London Borough of Hackney's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

The other control deficiencies that we have identified as at the date of this report are set out in '*Appendix A: Internal control conclusions*'.

Significant control deficiencies

Other Observations

In our view, the deficiencies in internal control set out in this section result in a potential for financial loss, damage to reputation, or a loss of information. This may have implications for the achievement of business strategic objectives. Our recommendations should be considered for immediate action.

1. CedAR E5 Journals with the same journal poster and authoriser

Description of deficiency

Journals testing identified 7 instances in which the journal inputter's user ID was the same as the reviewer ID. This was caused by a system fault in CedAR e5, where the reviewer ID overwrites the initial poster ID. We cannot ascertain how many journals overall may be impacted by this issue. There were no indications of management override of controls or fraud in the journals selected for testing because they had the same user and approver. The journal upload templates provided act as an additional level of control where the original uploader is recorded, and the CedAR journal upload receipt issued to the poster can be reviewed, however this was not consistently implemented as we noted 4 journals either did not have the receipt saved, or the upload template had not been appropriately completed to record the poster.

We understand from discussions with the council that this is a presentational issue in the CedAR e5 system. We observed in our walkthroughs that controls have been designed and implemented effectively to ensure that approvers are not able to amend posted journals. However, the system audit trail does not allow us to conclude these controls were operationally effective during the year. We understand that the Council are working to update the system in order that this glitch does not persist in the next financial year.

Potential effects

There is a risk that journals could be edited or manipulated, and segregation of duties controls which are largely effective could be circumvented without detection.

Recommendations

1. Review the reporting function in CedAR and ensure that reporting accurately reflects the journal uploader, reviewers and authoriser.
2. Ensure that journal upload templates are populated by those who will be manually uploading the journals and authorising to ensure consistency.
3. Ensure copies of CedAR upload receipts are embedded into journal templates and working papers to provide an appropriate auditable trail.

Management response

The Council is aware of a system glitch in the CedAR e5 finance system where the 'input user' field incorrectly displays the reviewer's ID instead of the original poster's ID upon review of an unposted journal. We are currently collaborating with the supplier to correct this anomaly. However, we reject the assertion that this represents a control weakness. This is solely a visual display error within CedAR e5. It has no impact on the underlying Segregation of Duties (SoD) controls. System permissions are strictly enforced: individuals with inputter roles cannot approve uploads, and authorisers cannot upload journals. Since technical roles remain separate and siloed, it is impossible to override the Segregation of Duties controls.

Significant control deficiencies

Other Observations

In our view, the deficiencies in internal control set out in this section result in a potential for financial loss, damage to reputation, or a loss of information. This may have implications for the achievement of business strategic objectives. Our recommendations should be considered for immediate action.

2. Documentation of Revenue Capitalisation

Description of deficiency

Our sample selection criteria in journals testing identified 19 journals where there had been capitalisation of revenue spend which we considered to be a risk requiring further investigation. For 3 of these journals, it was unclear that the works undertaken met the threshold for capitalisation under IAS16. The descriptions and review recorded by the Council were not sufficiently detailed to give conclusive support that these should have been capitalised and may have been outside the remit of capital programme works. The Council could not provide decisions or further documentation to clarify the nature of this expenditure. The capital additions testing did not identify any misstatements which would indicate additions or revenue expenditure were materially misstated.

Potential effects

There is a risk that the Council inappropriately capitalises revenue expenditure which would impact both the general fund reserves, through understatement of revenue expenditure, and the capital adjustment accounts.

Recommendation

1. Retain clearer documentation referencing capital business cases which meet the threshold for capitalisation of works, particularly regarding void works or tenant associated defects.
 2. Ensure all documentation highlights why the works are a significant enhancement and meet the threshold for capitalisation under IAS 16 and not general repairs and maintenance work undertaken on voids or other property, plant and equipment.
-

Management response

The Council accepts that documentation for certain HRA works did not sufficiently detail the decision-making process for capitalisation. While many descriptions, such as 'replacement due to leaks' or 'defective doors,' may appear to be routine repairs, the underlying nature of these works was, in fact, the replacement of major components of the overall asset. The costs will be capitalised on the basis that they constitute replacements or substantial restorations that either extend the useful life of a major asset component or restore its functionality beyond the day-to-day 'maintenance' level. We will ensure that capital business cases are explicitly referenced in all capitalisation journals.

Significant control deficiencies

Other Observations – Continuing deficiency noted in prior year

We identified a control issue surrounding indexation of fixed assets not revalued in year, that is a continuation of a similar recommendation made in the prior year. We have included the prior year recommendation below on the left-hand side for ease of comparison. In our view, the deficiencies in internal control set out in this section result in a potential for financial loss, damage to reputation, or a loss of information. This may have implications for the achievement of business strategic objectives. Our recommendations should be considered for immediate action.

23/24 Control Recommendation: Indexation of Property Plant and Equipment

Description of deficiency

The Council uses a rolling programme valuation approach for its land and buildings, where only 20% of assets are fully revalued during the year. For 80% of assets, indexation is applied to update the carrying values of these assets at year end. In assessing their indexation approach, we found that the Council had not used appropriate data to support the revaluation movement of specific classes of buildings and land. Specialised buildings are valued using the depreciated replacement cost (DRC) method, which is based on data relating to the cost of reconstructing the asset. For the indexation of specialised buildings, the Council had instead used market data on sales/rentals, which is not reflective of the nature of these specialised assets as they are generally not traded/rented. The Council's analysis of land value indexation included post year end market movements, for example reports relating to September 2023 to September 2024. As the indexation process reflects movement of value within the year (1 April 2023 to 31st March 2024), we deemed the data inappropriate.

Therefore, we have noted a deficiency in the controls surrounding the year end valuation of land and buildings, in relation to those assets which are not revalued.

Potential effects

The valuations of land and buildings which were not revalued within the year could be materially misstated at the year end.

Recommendation

For assets not revalued within the year and where indexation is applied, the Council should adopt indices that are appropriate given the nature of the assets and the relevant period.

Management response

Going forward (from 2024/25 onwards) for the 80% properties that are valued using DRC methodology, management has determined Build Cost information Service (BCIS) construction data index for Buildings and either Savills Land Development or Knight Frank indices for Land to be the most appropriate index to be applied.

24/25 Control Recommendation: Indexation of Property Plant and Equipment: Community Assets

Description of deficiency

We noted during testing that the Council applied the Savills land index to both land and buildings, when they should have applied the BCIS build cost index to Buildings. This resulted in a non-material misstatement of building values at the reporting date, see unadjusted misstatement number 6 on slide 28 for additional detail.

Therefore, we have noted that the deficiency in the controls surrounding the year end valuation of land and buildings, in relation to those assets which are not revalued has continued.

Potential effects

There is a risk that PPE could become materially misstated due to inaccuracies in the indexation adjustments. These would compound for up to four years before the assets would be revalued in line with the rolling programme.

Recommendation

The council should apply land indices to Community Assets that are Land and build cost indices to Community Assets that are buildings.

Management response

For the 2025/26 accounts, the Council will ensure that BCIS build cost indices are strictly applied to the Community Assets to maintain valuation accuracy.

06

Summary of misstatements

Summary of misstatements

Unadjusted misstatements

Our overall materiality, performance materiality, and clearly trivial (reporting) threshold were reported in our Audit Strategy Memorandum, issued on 30 May 2025. Any subsequent changes to those figures are set out in the 'Audit approach and risk summary' section of this report.

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to members of the Audit Committee unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

	Description	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
1	Dr: Investment Properties Cr: CIES Investment Properties valuations testing error Income evidence provided totalled £2,547,219, the amount used in the calculation by the external valuer was £2,457,219. This resulted in an understatement of £1,770k. As this sample was a quantitative key item, we have not to projected the error.	Factual	1,770	(1,770)		
2	Dr: Fees, Charges and Other Service Income Cr: Reserves Fees, Charges and Other Service Income testing error We noted in testing of Fees, Charges and Other Service income that income for 2023/24 had been recognised in 2024/25. We understand that the Council has a de minimis threshold for accruals in place, however, as this is not included in the accounting policies this error has been extrapolated against the total population to determine the representative error in the balance. £1,554 actual error noted.	Extrapolated	8,180			(8,180)
3	Dr: Government Grants and Contributions Cr: Fees, Charges and Other Service Income Government Grants and Contributions testing error 4 samples tested were facilities management payments relating to schools which should have been recognised as fees, charges and other service income were incorrectly recognised as grants and contributions. £59,838 actual error noted.	Extrapolated	1,175	(1,175)		

Summary of misstatements

Unadjusted misstatements (continued)

	Description	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
4	<p>Dr: Revaluation Reserve Cr: Property, Plant and Equipment</p> <p>Property, Plant and Equipment valuations testing errors We identified 6 errors in Property Plant and Equipment valuations testing. This is the net aggregate unadjusted misstatement. Please see pages 30-31 for further detail on each adjustment.</p>	Extrapolated			3,163	(3,163)
5	<p>Dr: Creditors Cr: Usable Reserves</p> <p>Creditors testing error One sample of identified in Creditors Testing was a grant received in advance which had been incorrectly classified as a short-term creditor. The amount of £478,596 was held as a short-term creditor due to the perceived risk it may be reclaimed by the awarding authority. Given that the cash balance was awarded in 2008, documentation had not been retained outlining the terms under which this grant would be reclaimed. This error was extrapolated against the remaining untested population to give an estimated overstatement of the creditors balance of £4,883,607.54</p>	Extrapolated	4,884			(4,884)
6	<p>DR PPE CR Revaluation Reserve CR I&E</p> <p>Indexation Testing We noted an incorrect percentage being applied to building indexation for community assets, resulting in the building valuations being understated by around £1.2m. We have included here our draft calculation of £1.2m, this is being finalised with the Council and therefore subject to change, we will update members in the ACR follow-up letter. Should the revaluation reserve be insufficient, this will be credited to the CIES.</p>	Factual			1,205	(1,205)
Aggregate effect of unadjusted misstatements			16,009	(2,945)	4,368	(17,432)

Summary of misstatements

Unadjusted misstatements – PPE valuation errors

This slide gives further information on unadjusted misstatement 4, 'Property, Plant and Equipment valuations testing errors' from the previous slide.

	Description	Nature	Property, Plant and Equipment		Revaluation Reserve	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
1	<p>DR: Property, Plant and Equipment Cr: Revaluation Reserve</p> <p>Error in the valuation formula for schools We noted an error in the calculation that resulted in the school being understated by £463k. As we have tested all but one revalued school, and not identified any other errors, we have not extrapolated this error.</p>	Factual	463			(463)
2	<p>Dr: Revaluation reserve Cr: Property, Plant and Equipment</p> <p>Inappropriate build cost index used in valuation For the Rose Lipman Library, the external valuation expert used the build cost index for a library, despite this asset being used as a community centre from 2012. Were this asset to be rebuilt, using build cost indices for a library is inappropriate. The value of the asset is therefore overstated by £1,665k. This error was not extrapolated given that the asset has a misleading asset name and the error would not be representative across the rest of the population.</p>	Factual		(1,665)	1,665	
3	<p>Dr: Property, Plant and Equipment Cr: Revaluation reserve</p> <p>Rent increases not included in valuation The external valuer did not include rent increases detailed in the lease in their calculation. This resulted in the asset being understated by £505k. We extrapolated this error against the remaining untested population, giving a total factual and projected error of £1,709,952.</p>	Extrapolated	1,710			(1,710)

Summary of misstatements

Unadjusted misstatements – PPE valuation errors

This slide gives further information on unadjusted misstatement 4, 'Property, Plant and Equipment valuations testing errors' from the previous slide.

	Description	Nature	Property, Plant and Equipment		Revaluation Reserve	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
4	<p>Dr: Revaluation reserve Cr: Property, Plant and Equipment</p> <p>VAT treatment The external valuer applied VAT to all professional fees inappropriately. The VAT should not have been included in the valuation where it can be recovered. We calculated the percentage of the total value of DRC building sampled which was VAT 2.47% and applied this percentage to the total value of non-sampled DRC building assets to arrive at a combined factual and projected overstatement of £2,870k.</p>	Extrapolated		(2,870)	2,870	
5	<p>Dr: Revaluation reserve Cr: Property, Plant and Equipment</p> <p>Professional fees The external valuer inappropriately applied 1.5% professional fees to land values where land values are inclusive of fees per industry practice.</p>	Factual		(3,702)	3,702	
6	<p>DR: Property, Plant and Equipment Cr: Revaluation Reserve</p> <p>Economic obsolescence applied to assets which are not income-producing or market exposed The external valuer included 2.5% economic obsolescence factor to assets which are specialised operational assets which are valued on the remaining service potential, which is tied to replacement cost of that service, rather than market economics.</p>	Factual	2,901			(2,901)

Summary of misstatements

Adjusted misstatements

The misstatements in the table below have been adjusted by management. We report all individual misstatements above our reporting threshold that we identify during our audit and which management had adjusted and any other misstatements we believe members of the Audit Committee should be made aware of.

	Description	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
1	DR: Property, Plant and Equipment Cr: Assets Held for Sale Assets Held for Sale testing 17 Sylvester Road was inappropriately transferred to assets held for sale. This asset was not being actively marketed or available for sale at 31/03/2025 and therefore should have been classified as Property, Plant and Equipment.	Factual			2,400	(2,400)
2	DR: Property, Plant and Equipment Cr: Revaluation Reserve Cr: SDPS Property, Plant and Equipment valuation testing A special school was valued using a calculation and cost index inputs appropriate for a standard school. We confirmed that this was an error with the external valuer. Recalculation of the value of the asset resulted in it increasing by £8,361k to £12,202k. This does not include the adjustment required to correct the application of VAT to fees and the economic obsolescence, which has been separately calculated across the population as a whole. The adjustment includes a reversal of revaluation charged to the CIES of £7.2k where the loss exceeds the existing available revaluation reserve.	Factual	8,361	(7)		(8,354)

Summary of misstatements

Adjusted misstatements (continued)

	Description	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
3	<p>DR: Donated income Cr: Right of Use Assets Dr: Accumulated depreciation – RoU asset Cr: Depreciation expense</p> <p>IFRS 16 Leases testing The Council originally valued 9 peppercorn leases at the estimated annual market rent multiplied by the lease term. As peppercorn leases tend to be very long term (250-999 years), this resulted in a very large balance for these 9 Right of Use assets. Right-of-Use assets (RoU) or leases held at below market value, such as peppercorn leases, should be valued at the fair value of lease asset, rather than the lease liability in the Public Sector. The fair value of the lease assets is determined in the same way as for other assets valued on the EUV basis. The error was caused by the council not discounting the total cashflows used in the valuation back to present value. Correcting the calculations brought the total valuation for RoU assets arising from peppercorn leases down to £4.4m.</p>	Factual	242,700	(337)	337	(242,700)
4	<p>DR: Provisions Cr: Earmarked reserves</p> <p>Provisions testing Unallocated funds of £1.5m received for a HRA project were incorrectly recorded as provisions where they did not meet the criteria to be reported as a provision. These funds will be utilised in the upcoming years when the planned expenditure is incurred. These funds should have been recorded in an earmarked HRA reserve as they relate to a specific project HRA project. The £1.5m error has been adjusted, the remaining £320k projected error against other similar provisions has not been adjusted but falls beneath the clearly trivial threshold for reporting and so has not been recorded in the unadjusted misstatements table.</p>	Factual			1500	(1500)
5	<p>DR PPE CR Revaluation Reserve</p> <p>Indexation Testing We noted a calculation error led to an incorrect percentage being applied and the land valuations being understated by around £28.0m. We have included here our draft calculation of £28.0m, this is being finalised with the Council and therefore subject to change, we will update members in the ACR follow-up letter. Should the revaluation reserve be insufficient, this will be credited to the CIES.</p>	Factual			27,975	(27,975)
Aggregate effect of adjusted misstatements			251,061	(344)	32,212	(282,929)

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

- The Community Infrastructure Levy had been erroneously disclosed within Note 29. Expenditure and Funding Analysis as part of the 'Fees, Charges and Other Service Income' line rather than within the 'Grants and Contributions' line, as per note the Dedicated Schools Grant Note 36.
- There was a spreadsheet error on termination benefits for a single employee, resulting in an error in note 35. Termination Benefits. The error in payment was identified due to incorrect backing report.
- The CIES stated that 2023-24 values were restated and explained the reason as 'due to structural changes in the councils operations'. It did not provide a reference to the note showing the restated vs prior-year values. This left users unable to trace the restatement impact. An additional note disclosing a full breakdown of the prior-year original and restated figures has been added (Note 49).
- The Financial Instruments note was missing required balances, including certain trade and other receivables and payables, and the London Energy Efficiency Fund loan of £13.3 million. This meant the Balance Sheet figures for Short- and Long-Term Borrowing were inconsistent and required revision. The correction increased Trade Payables from £1.4 million to £73.9 million, Trade Receivables from £14.2 million to £54.8 million, and Expected Credit Losses from £0, as omitted, to £16.4 million. We consider this a presentational misstatement as the balances were correctly disclosed in the primary statements and other related notes.
- The Group Balance Sheet and Group Cash Flow Statement included a restatement of opening balances. The restatement was not material, as the individual line adjustments were all below our clearly trivial threshold and the net impact on reserves was £0.9 million, just above our trivial threshold. Therefore, we considered that it did not meet the requirements of a prior period adjustment (PPA), entailing that the figures should not be restated, but instead corrected in the closing balances.
- There were no notes for Long-term creditors which, although not material in 2023/24, were material in 2024/25. Note 48 has been added, splitting long-term creditors into IFRS 16 lease liabilities of £25.8 million and Other Long-Term Payables of £4.9 million.
- Note 15. Intangible Assets note was not material for 2024-25 (£5.9 million) or the prior year (£4.4 million) and has been removed.
- The narrative for Note 43 Defined Benefit Pension Scheme contained the required disclosures from the prior year regarding the Virgin Media case but lacked narrative regarding developments during the period.
- Provisions testing noted that insurance premiums were incorrectly included within insurance provisions. These do not represent obligations arising from past event and therefore do not meet the recognition criteria for provisions under IAS 37. These items have been removed from the provisions note (£10,381k). This does not affect the total balance of provisions included in the balance sheet.

We will obtain written representations confirming that, after considering the unadjusted disclosure misstatements, both individually and in aggregate, in the context of the annual report and financial statements taken as a whole, no adjustments are required.

Summary of misstatements

Disclosure misstatements – Adoption of IFRS 16

We identified various instances where the accounting policies and related disclosures for IFRS 16 were incorrect or incomplete:

- Incorrect classification of leases/PFI as financial instruments: the Accounting Policies said Financial Instruments “include PFI and leases,” which contradicted the Cipfa Code. Leases and PFI were removed from the Financial Instruments definition and aligned the note with the corrected accounting policy.
- Incomplete narrative on lease liability remeasurement: only index-linked changes were mentioned, omitting other potential influences on IFRS 16 calculations (lease term changes, purchase options, residual guarantees, etc.).
- Right-of-use (RoU) asset measurement policy was vague: stating only that RoU assets follow PPE rules; it did not specify that cost may be used as a proxy for current value, and when cost proxy is inappropriate and current value must be used instead.
- Missing policy for peppercorn/nominal leases: the expected narrative was missing for peppercorn leases in Note 11. This has been updated to outline that peppercorn RoU assets are measured at fair value, liabilities at the present value of future payments, and that the difference is recognised as donated income on commencement of the lease.
- Missing transitional disclosures per IAS 8 & IFRS 16: required disclosure of transitional provisions, discount rate, or reconciliation between IAS 17 operating lease commitments and IFRS 16 liabilities was absent.
- Outdated terminology, use of “contingent rent”: contingent rent does not exist under IFRS 16 but was still referenced. This has been amended to make clear that this applies only to 2023–24.
- Right-of-use asset table not presented in PPE format: the RoU asset table lacked cost/valuation vs depreciation split and omitted opening balances, causing inconsistency with PPE presentation requirements.
- Missing lessor disclosures: IAS 16 disclosure requirements for operating leases as lessor were missing entirely.

We will obtain written representations confirming that, after considering the unadjusted disclosure misstatements, both individually and in aggregate, in the context of the annual report and financial statements taken as a whole, no adjustments are required.

07

Fraud considerations

Fraud considerations

We have a responsibility to plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error.

Your responsibilities

Management has primary responsibility for the prevention and detection of fraud. It is important that management, with members of the Audit Committee oversight, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which is reinforced by members of the Audit Committee's active oversight.

Our responsibilities

We have a responsibility for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in a misstatement is intentional or unintentional. Two types of intentional misstatements are relevant to us – misstatements resulting from fraudulent financial reporting, and misstatements resulting from the misappropriation of assets.

ISA presumed fraud risks

As set out in the 'Audit approach and risk summary' section, the risks of fraud in management override of controls were identified as significant risks.



08

Value for Money

Value for Money

Approach to Value for Money

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

This is the first audit year where we have undertaken our value for money (VFM) work under the full 2024 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place, and to report in the auditor's report where we are not satisfied that arrangements are in place. Where we have issued a recommendation in relation to a significant weaknesses this indicates we are not satisfied that arrangements are in place. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

A key change in the 2024 Code of Audit Practice is the requirement for us to issue our Auditor's Annual Report for the year ending 31st March 2025 to you in draft by the 30th November 2025. This is required whether our audit is complete or not. Should our work not be complete, we will report the status of our work and any findings to up to that point (and since the issue of our previous Auditor's Annual Report).

The Code requires us to structure our commentary to report under three specified criteria:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout

the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report by exception. We will also highlight emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. This commentary provides a summary of the work we have undertaken and our judgements against each of the specified reporting criteria. We issued the draft Auditor's Annual Report in November 2025. This will be formally issued following conclusion of the audit.

Status of our work

We completed our work in respect of the Council's arrangements for the year ended 31 March 2025 in November 2025 and reported two significant weaknesses in arrangements with associated recommendations. We also made one other recommendation. We provide further details on the identified significant weaknesses and our recommendations later in this section of our report.

Our draft audit report at Appendix C confirms that we have matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report which will be issued following conclusion of the audit.

Value for Money

Identified significant weaknesses in arrangements and recommendations for improvement

In our Audit Strategy Memorandum we reported the risks of significant weaknesses in arrangements that we had identified as part of our planning procedures. Our responses to those identified risks are outlined in the table below.

Risk of Significant Weakness in Arrangements	Work Undertaken and Conclusions Reached	Recommendation for improvement
<p>1 Financial sustainability:</p> <p>Unsustainable and unplanned use of reserves and other short-term measures to deliver services</p>	<p>Work undertaken</p> <p>We engaged with management to assess what measures are being implemented to control levels of spend, make savings, and ensure financial sustainability. To support this assessment, we have reviewed:</p> <ul style="list-style-type: none"> • MTFP and budget setting process • Plans to monitor expenditure and savings including mitigating actions • Plans to replenish reserves and evidence of implementation • The process of setting and monitoring savings as well as the evidence of implementation. <p>Results of our work</p> <p>Whilst the general fund balance has been increased to £19m, the Group Director - Finance & Corporate Resources' prudent minimum level, other usable reserves (the General fund reserve balance) have fallen from £154.1m at 31/03/2024 to £111.6m by 31/03/2025. The Council has determined that it has sufficient reserves to cover expenditure at current levels for approximately two financial years to March 2027 before these are exhausted.</p> <p>Continued reliance on the use of reserves to mitigate lack of savings delivery and bridge budget gaps is unsustainable and risks the Council depleting its reserves whilst not achieving the savings and cost control measures needed to deliver services.</p> <p>In our view this is evidence of a significant weakness in the Council's arrangements for financial sustainability, specifically in relation to how the Council plans to bridge its funding gaps and identifies achievable savings.</p>	<p>The Council should reduce its reliance on reserves to fund budget gaps by identifying further transformation opportunities to enable efficient and sustainable service delivery.</p>
<p>Management response</p>	<p>The Council recognises the auditor's concern regarding the General Fund reserve usage in 2024/25. We are committed to reducing reliance on one-off resources. The Council is currently identifying further transformation opportunities and service delivery efficiencies to bridge future funding gaps. While the general fund balance remains at the prudent minimum of £19 million, a robust MTFP has been developed to stabilise other usable reserves before they are exhausted in 2027. The favourable funding settlement and increased certainty through 2028/29 provide a strategic opportunity to bolster our revenue reserves. This will significantly strengthen the Council's financial resilience over the medium term.</p>	

Value for Money

Identified significant weaknesses in arrangements and recommendations for improvement - continued

Risk of Significant Weakness in Arrangements	Work Undertaken and Conclusions Reached	Recommendations for improvement
<p>2</p> <p>Improving efficiency, economy and effectiveness</p> <p>Failure to comply with Health and Safety standards in relation to Social Housing</p>	<p>Work undertaken</p> <p>We engaged with management and obtain corroborating evidence to assess the progress the Council has made during 2024/25 to address the findings of the Housing regulators.</p> <p>We sought evidence from the Council on the action it has taken during 2024/25 to gain assurance over the adequacy of the data it holds over its Safety and Quality Standard and its housing stock.</p> <p>Results of our work</p> <p>The failure of the Council to deliver its overarching action plan to achieve 100% compliance with the Home Standard is evidence of a significant weakness in the Council's arrangements for Governance, specifically taking appropriate action for securing improvement in areas identified as requiring improvement by a regulatory body.</p>	<ol style="list-style-type: none"> 1) Management should take steps to implement recommendations made by the Regulator for Social Housing and Housing Ombudsman. 2) Management should work to restore the data held on its properties 3) Management should ensure targets focus on resolving the underlying issues noted by external parties
<p>Management response</p>	<p>The Council is taking immediate action to address the findings of the Regulator of Social Housing (RSH) and the Housing Ombudsman (HOS).The Council has integrated the recommendations into an updated Housing Improvement Plan. This plan includes workstreams for health and safety compliance, repairs, learning from complaints, knowledge and information management, oversight, workforce development, policy and procedure. The implementation of these recommendations is monitored by the HOS with quarterly advisory reports submitted to Cabinet and the Living in Hackney Scrutiny Commission with further challenge and oversight from the Independent Housing Advisory Panel and the HRA Finance Improvement Board.</p>	

Value for Money

Other recommendations

Risk of significant weakness in arrangements	Work Undertaken and Conclusions Reached	Other recommendation for improvement
<p>Governance</p> <p>Making informed financial decisions regarding Housing & Temporary Accommodation</p> <p>Following a major cyber-attack in 2020, the Council's Temporary Accommodation (TA) team have been working from google spreadsheets rather than a booking system and a finance system. The booking system upgrade was implemented in June 2025, however, the finance function will continue to rely on spreadsheets until the integrated NEC housing system is made available which is not expected until 2027.</p> <p>Internal Audit reported on 12 February 2025 the following issues pertinent to VFM with the current systems:</p> <ul style="list-style-type: none"> - They may result in errors from duplication - They do not flag when rent reviews are due - Void monitoring and handover notification processes are not effectively used - Limitations in the spreadsheet system have resulted in errors to supplier payments, rent overpayments, late billing, rent arrears, and void properties not being turned around in stipulated timescales. 	<p>Work undertaken</p> <p>We engaged with management to understand what arrangements are in place to provide reliable data to inform decision making about the spending plans of the Temporary Accommodation Service.</p> <p>Results of our work</p> <p>We enquired with internal audit and reviewed their work on leasehold major works debt recovery. This work found that for the sets of information on spreadsheets for the recovery of debt:</p> <ul style="list-style-type: none"> - that Final invoices had not been issued for some accounts by the team and that estimated costs do not always match those recorded on the workflows. - Recovery action for Major Works Debt of £2.6m had occurred in September 2024, but had not been undertaken from that point to the date of their report as at 31 October 2025. - Balances for Major Works had not been fully reviewed, investigated and validated. 	<p>We have raised an 'Other recommendation' in relation to this risk as we do not consider that this is a significant weakness in arrangements:</p> <p>Given the importance of the Housing & TA service's financial performance on the Council's overall financial outturn, the Council needs to be making decisions that are informed by appropriate evidence. During 2024/25, the arrangements for providing that evidence have not been adequate.</p>
<p>Management response</p>	<p>The Council recognises the limitations of using spreadsheets for Temporary Accommodation (TA) financial monitoring. Following the June 2025 booking system upgrade, we are prioritising the migration of the TA finance function to the integrated NEC housing system, expected to be implemented and go live in 2026/2027.</p> <p>A dedicated project group has been established to tackle the outstanding major works debt. This group is actively working on reviewing and recovering the balances owed to the council.</p>	

Appendices

A: Internal control conclusions

B: Draft management representation letter

C: Draft audit report

D: Confirmation of our independence

E: Other communications

F: Current year updates, forthcoming accounting and other issues

Appendix B: Draft management representation letter

Forvis Mazars LLP
30 Old Bailey
London
EC4M 7AU
[Date]

Dear Suresh Patel,

London Borough of Hackney - Audit for Year Ended 31 March 2025

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hackney (“the Council”) for the year ended 31 March 2025 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the Code), and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code, as amended by applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Section 151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

I confirm that I have identified and clearly labelled any information provided to you as part of the audit that I consider legally privileged.

Appendix B: Draft management representation letter

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and panel meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that the methods, significant assumptions and the data used by the Council in making the accounting estimates, including those measured at fair value, are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.
- There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.
- There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code, as amended by applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Appendix B: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Section 151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error and I believe I have appropriately fulfilled those responsibilities.

I have disclosed to you:

all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;

all knowledge of fraud or suspected fraud affecting the Council involving:

- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code, as amended applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

The Council has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code, as amended by applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Appendix B: Draft management representation letter

Impacts of Russian Forces entering Ukraine

I confirm that I have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Narrative Report and the subsequent events note 6 to the financial statements fairly reflects that assessment

Tariffs

I confirm that I have carried out an assessment of the potential impact of changes in US trade policy in respect of tariffs, including the impact of reciprocal tariffs by other countries, including the impact of mitigation measures and uncertainties, and that the disclosure in the Narrative Report and the subsequent events note 36 to the financial statements fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts[TAILOR AS APPROPRIATE]

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully,

Naeem Ahmed

Group Director - Finance and Corporate Resources and Section 151 Officer

Date: XXXX

Appendix C: Draft audit report

Independent auditor's report to the members of London Borough of Hackney

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Hackney Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2025, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2025 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Group Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's or Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Group Director of Finance with respect to going concern are described in the relevant sections of this report.

Appendix C: Draft audit report

Other information

The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Group Director of Finance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Group Director of Finance for the financial statements

As explained more fully in the Statement of the Group Director of Finance's Responsibilities, the Group Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, and for being satisfied that they give a true and fair view. The Group Director of Finance is also responsible for such internal control as the Group Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council and Group will continue in operational existence for the foreseeable future. The Group Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Appendix C: Draft audit report

Based on our understanding of the Council and Group, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation, anti-money laundering regulation, data protection, environmental protection, corruption and anti-bribery, non-compliance with implementation of government support schemes relating to COVID-19.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- gaining an understanding of the legal and regulatory framework applicable to the Council and Group, the environment in which it operates, and the structure of the Council and Group, and considering the risk of acts by the Council and Group which were contrary to the applicable laws and regulations, including fraud;
- inquiring with management and the Audit Committee, as to whether the Council and Group is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- reviewing relevant meeting minutes in the year;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and Group which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015 and the Local Government and Housing Act 1989.

In addition, we evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to :

- making enquiries of management, Head of Internal Audit and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

Appendix C: Draft audit report

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud, rests with both management and the Audit Committee.

As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are also required to conclude on whether the Group Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, (Revised 2024) and Supplementary Guidance Note 01, issued by the National Audit Office in November 2024.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2025.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Council's arrangements for the year ended 31 March 2025:

Significant weakness in arrangements [DRAFT WORDING]	Recommendation [DRAFT WORDING]
<p>Financial Sustainability</p> <p>In 2024-25, the Council used £42.5 million of other usable reserves (the General fund reserve balance) (£8.4 million in 2023/24) to deliver a balanced outturn. In addition, the Council did not achieve its savings targets for 2024/25 using risk reserves and one-off resources to bridge the gap.</p> <p>The use of reserves and one-off resources to bridge budget gaps (including gaps caused by undelivered savings) is unsustainable and indicates a significant weakness in the Council's arrangements for financial sustainability.</p>	<p>The Council should reduce its reliance on reserves to fund budget gaps by identifying further transformation opportunities to enable efficient and sustainable service delivery</p>

Appendix C: Draft audit report

Significant weakness in arrangements [DRAFT WORDING]	Recommendation [DRAFT WORDING]
<p>Failure to comply with Health and Safety standards in relation to Social Housing</p> <p>The Council self-referred to the Regulator of Social Housing (RSH) in June 2024 for non-compliance with the new Safety & Quality Tenant Satisfaction Measure. The Housing Ombudsman Service (HOS) also launched a special investigation into the Council’s repairs delivery and complaints handling processes, publishing its final report in May 2025.</p> <p>The Council accepted the HOS recommendations, integrating them into an updated Housing Improvement Plan. The Council has also continued to face challenges with data on properties as a result of the 2020 cyber attack and loss of data.</p> <p>The failure of the Council to deliver its overarching action plan to achieve 100% compliance with the Home Standard is evidence of a significant weakness in the Council's arrangements for Governance, specifically taking appropriate action for securing improvement in areas identified as requiring improvement by a regulatory body.</p>	<ol style="list-style-type: none">1) Take steps to implement recommendations made by the Regulator for Social Housing and Housing Ombudsman.2) Continue to work on restoring the data held on properties.3) Ensure targets focus on resolving the underlying issues noted by external parties.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of arrangements for securing economy, efficiency, and effectiveness in the use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency, and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Appendix C: Draft audit report

Use of the audit report

This report is made solely to the members of London Borough of Hackney Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work required in relation to consolidation returns

[Signature]

Suresh Patel, Key Audit Partner

For and on behalf of Forvis Mazars LLP (Local Auditor)

30 Old Bailey,
London,
EC4M 7AU

[Date]

Appendix D: Confirmation of our independence

We communicate any matters which we believe may have a bearing on the independence or the objectivity of Forvis Mazars LLP and the audit team. As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We confirm that no new threats to independence have been identified since issuing our Audit Strategy Memorandum and therefore we remain independent.

Appendix E: Other communications

	Other communication	Response
	Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
	External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
	Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ol style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
	Going Concern	<p>We have not identified any evidence to cause us to disagree with the Chief Financial Officer that the Council will be a going concern, and therefore we have not identified any evidence to cause us to consider that the use of the going concern assumption in preparation of the financial statements is not appropriate.</p>

Appendix E: Other communications

Other communication		Response
	Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
	Matters related to fraud	<p>Our audit was designed to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. Please refer to the section titled ‘Fraud considerations’ for our fraud considerations and conclusion.</p> <p>We will obtain written representations from management and, where appropriate, members of the Audit Committee, confirming that</p> <ol style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix E: Other communications

Other communication	Response
 <p>System of Quality Management</p>	<p>To address the requirements of ISQM (UK) 1, our firm’s System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our firm’s System of Quality Management, including:</p> <ul style="list-style-type: none"> • Ensuring there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • Establishing and reviewing quality objectives each year, ensuring ISQM (UK) 1 objectives align with our firm's strategies and priorities • Identifying, reviewing, and updating quality risks each quarter, taking into consideration a number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm’s root cause analysis and remediation functions, etc.) • Identifying, designing, and implementing responses as part of the process to strengthen our firm's internal control environment and overall quality • Evaluating responses and remediating control gaps or deficiencies <p>We perform an evaluation of our system of quality management on an annual basis. Our latest evaluation was performed as of 31 August 2024. Details of that assessment and our conclusion are set out in our 2023/2024 Transparency Report, which is available on our website here.</p>

Appendix F: Current year updates, forthcoming accounting & other issues

Current and forthcoming accounting issues

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2019

IFRS 16 Leases (Issued January 2016)

- IFRS 16 Leases (IFRS 16) has replaced the existing leasing standard, IAS 17, and has introduced significant changes, particularly for lessees. The requirements for lessors is largely unchanged from the position in IAS 17. Lessees will need to recognise right of use assets and associated lease liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. Subsequent to initial recognition, a service concession arrangement liability will subsequently measured following the principles set out in IFRS 16. The introduction of this standard in 2024-25 is likely to lead to significant work being required in order to identify all leases and service concession arrangements to which the Council (and its schools) are party to. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed. IFRS 16 was adopted by the Code of Practice on Local Authority Accounting in 2024/25.

Effective for accounting periods beginning on or after 1 January 2023

IFRS 18 Presentation and Disclosure in Financial Statements (Issued April 2024)

- IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements. As IFRS 18 was only issued in April 2024 it has yet to be adopted by the Code of Practice on Local Authority Accounting in 2024/25 therefore the applicability to local government is to be determined.

Appendix F: Current year updates, forthcoming accounting & other issues

International Standard on Auditing (UK) 600 Revised - Special considerations - Audits of group financial statements (Including the work of component auditors)

ISA (UK) 600 deals with the special considerations that apply to audits of group financial statements, including those circumstances when component auditors are involved. The auditing standard has been revised. The revised standard is effective for audits of group financial statements for periods beginning on or after 15 December 2023. The revisions made to ISA (UK) 600 impact how we perform audits of group financial statements, and how we communicate our audit strategy and audit findings arising from audits of group financial statements. This page sets out the key changes made to ISA (UK) 600 and how Forvis Mazars will apply the requirements of the revised standard in practice.

Key changes

The previous ISA (UK) 600 included prescriptive requirements in respect of the audit procedures required over 'significant components' of a group, i.e., a 'full scope' audit of a significant component's financial information relevant to the group financial statements was required. Forvis Mazars defined a 'significant component' as one that contributed to the group financial statements more than 15% of the materiality benchmark selected to determine group materiality, e.g., if we had determined materiality using a profit before tax benchmark, any component that contributed more than 15% of the group's reported profit before tax would be classified as a significant component and a 'full scope' audit would be performed over that component's financial information.

ISA (UK) 600 Revised eliminates the 'significant component' concept, opting instead for consideration of risks of material misstatement at the assertion level of the group financial statements that are associated with components. This results in a group audit that is better focused on the risks of material misstatement of the group financial statements and affords greater flexibility in how we classify components and how we may design the nature and extent of audit procedures to be performed over a component's financial information, i.e., we can determine the nature and extent of the audit procedures to be performed over a component's financial information based on the specific risks relevant to the group financial statements.

ISA (UK) 600 also, however, removed the option to limit the procedures performed over a 'non-significant' component's financial information to desktop analytical procedures. We are now required to perform substantive audit procedures (or a combination of substantive audit procedures and tests of controls) over the group financial statements, including the financial information relating to components in the group, until the residual, untested balances, classes of transaction and disclosures in the group financial statements are below our group materiality. This is to ensure that aggregation risk (the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole) is addressed appropriately.

In combination, these changes may result in a change to the nature and extent of the audit procedures we perform over the financial information of components on a group audit compared to previous years and may result in components that were not previously in scope of our group audit being brought into scope to ensure that we address aggregation risk appropriately.

To ensure consistency of approach, Forvis Mazars has applied the definitions set out below when performing audits of group financial statements:

Key component	Material component	Non-material component
Any component: i. Which is greater or equal to 15% of the benchmark chosen for calculating group materiality (key by size); or ii. Where the specific nature or circumstance of its financial information make it likely to include significant risks of misstatement of the group financial statements (key by risk).	Any component, other than a key component, that contributes to one or more group financial statement areas an amount that is above group financial statement materiality.	A component, that is not a key component or a material component, that is scoped into a group audit to reduce the risk of material misstatement of the group financial statements to an acceptably low level (based on size or risk) in situations when, after assessing which components are key components and material components, the aggregate amount of a financial statement area related to un-scoped components is still above group financial statement materiality.

Appendix F: Current year updates, forthcoming accounting & other issues

International Standard on Auditing (UK) 600 Revised - Special considerations - Audits of group financial statements (including the work of component auditors)

Key changes (continued)

Definition of ‘component’ - The definition of ‘component’ has been revised to “an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for the purposes of planning and performing audit procedures in a group audit”.

This provides clarity on how components may be identified in a group audit and may result in a change to how we identify components on a group audit compared to previous years. For example, we may group separate legal entities (e.g., subsidiaries) in a group based on common characteristics (such as common management, common information systems, and common geographical locations) and treat those components as a single component, when appropriate to do so.

Common controls - The definition of ‘group-wide’ controls has been removed and we are instead required to consider ‘common controls’, being controls that operate in a common manner for multiple entities or business units.

This may assist us in grouping separate legal entities, business units, functions, or business activities in a group into a single component for the purposes of a group audit; or it may result in us grouping specific account balances or classes of transaction recorded by individual legal entities, business units, functions, or business activities into a single population for the purposes of our audit procedures.

For audits where we are adopting a controls-based audit strategy, this may result in efficiencies, as we can rely on a single control for the purposes of the audits of more than one component where that control is common to those components.

Definition of ‘engagement team’ - The definition of ‘engagement team’ has been revised to include component auditors. While this change may seem inconsequential, it forms part of the overall changes intended by ISA (UK) 600 Revised to enhance two-way communication between the group auditor and component auditors during a group audit. This will result in enhanced direction and supervision of component auditors by the group auditor during a group audit.

Calculation of component materiality - The requirement to set overall materiality for a component has been removed. We are now only required to determine component performance materiality.

Other changes - ISA (UK) 600 Revised includes new and revised requirements and application material that better aligns the standard with recently revised standards such as ISQM (UK) 1, ISA (UK) 220, and ISA (UK) 315. The new and revised requirements also strengthen our responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and audit documentation. These changes are to encourage proactive management of quality at the group engagement level and the component level; reinforce the need for robust communication and interactions during a group audit; and foster an appropriately independent and challenging sceptical mindset.

Scope of audit work to be performed over a component’s financial information - Forvis Mazars will, determine the scope of work to be performed over a component’s financial information on a group audit using the definitions set out below:

Full scope	Specific scope	Group Engagement Team Instructed Procedures
Designing and performing audit procedures on the entire financial information of a component.	Designing and performing audit procedures on one or more specified account balances, classes of transaction, and/ or disclosures of a component.	Performing specified audit procedures, as designed and instructed by the group engagement team.

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